

**ROCK RAPIDS MUNICIPAL UTILITIES,
A COMPONENT UNIT OF
THE CITY OF ROCK RAPIDS**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2009

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-11
Basic Financial Statements:	<u>Exhibit</u> 12
Government-Wide Financial Statements:	
Statement of Net Assets	A 13-14
Statement of Activities	B 15
Proprietary Fund Financial Statements:	
Statement of Net Assets	C 16-17
Statement of Revenues, Expenses and Changes in Fund Net Assets	D 18-19
Statement of Cash Flows	E 20-23
Notes to Financial Statements	24-38
Required Supplementary Information:	39
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – Proprietary Funds	40
Budget to GAAP Reconciliation	41
Notes to Required Supplementary Information – Budgetary Reporting	42
Other Supplementary Information:	<u>Schedule</u> 43
Electric Utility Fund:	
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2008)	1 44-45
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2007)	2 46-47
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2008)	3 48
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2007)	4 49
Water Utility Fund:	
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2008)	5 50-51
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2007)	6 52-53
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2008)	7 54
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2007)	8 55
Sewer Utility Fund:	
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2008)	9 56-57
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2007)	10 58-59
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2008)	11 60
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2007)	12 61

Gas Utility Fund:		
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2008)	13	62-63
Comparative Statements of Net Assets (June 30, 2009 and June 30, 2007)	14	64-65
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2008)	15	66
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets (Fiscal Years Ending June 30, 2009 and June 30, 2007)	16	67
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		68-70
Schedule of Findings		71-79
Staff		80

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires/Term</u>
David Foltz	Board of Trustees Chairman	August 31, 2011
Stan Knobloch	Board of Trustees Vice Chairman	August 31, 2013
Randal Koll	Board of Trustees Member	August 31, 2009
Jordan Kordahl	Board of Trustees Secretary	December 31, 2009
Austin, Haberkorn & Kippley	Attorneys	December 31, 2009
James Hoye	Utilities Manager	Indefinite
George Schneidermann	Board of Trustees Ex-Official Member	March 9, 2009 to August 31, 2009

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246

American Institute - Certified Public Accountants
Private Companies Practice Section
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Independent Auditor's Report

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the business type activities and each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Rock Rapids Municipal Utilities' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, at June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2010 on our consideration of the Rock Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rock Rapids Municipal Utilities', a component unit of the City of Rock Rapids, Iowa, basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the fiscal years ended June 30, 2008 and June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

January 26, 2010

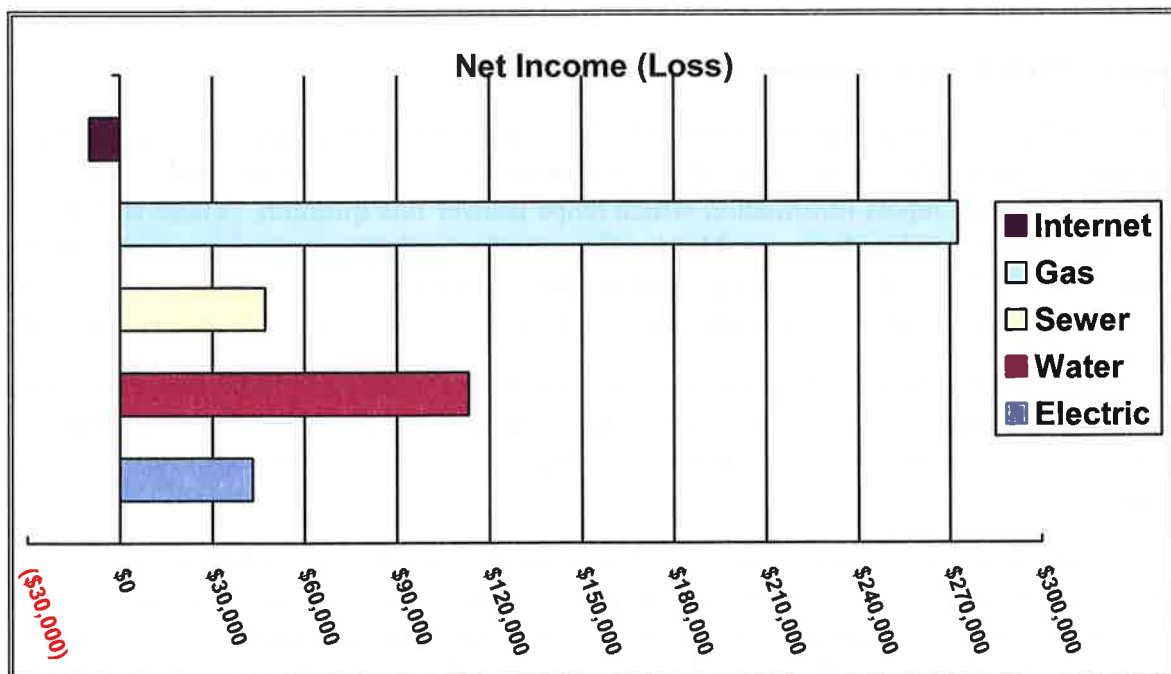
Management's Discussion and Analysis

The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- The Utilities' total net assets increased 3.5% during the fiscal year ended June 30, 2009. The net assets increased from \$13,505,780 to \$13,971,850, a \$466,070 increase.
- The Utilities' total revenues increased 2.9% during the fiscal year ended June 30, 2009. The total revenues increased from \$4,218,164 to \$4,336,770, a \$118,606 increase.
- The Utilities' total expenses decreased 5.7% during the fiscal year ended June 30, 2009. The total expenses decreased from \$4,105,060 to \$3,870,700, a \$234,360 decrease.
- Net income (loss) after special items, but before transfers in (out), for the fiscal year ended June 30, 2009 for each utility is as follows:

Electric	\$	43,033
Water		113,163
Sewer		47,183
Gas		272,609
Communications		
(Wireless Internet)	(9,918)
Total	\$	<u>466,070</u>



- The Gas Utility received \$368,997 from terminating its membership in the National Public Gas Agency (NPGA).
- The Communications (Wireless Internet) Utility ceased operations during the fiscal year ended June 30, 2009. The Communications (Wireless Internet) Fund was closed out by transferring the \$28,903 in remaining assets (cash) to the Electric Fund.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

The Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.

The Fund Financial Statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the funds.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

The Required Supplementary Information further explains and supports the financial statements with a comparison of the Utilities' budget for the year.

The Other Supplementary Information provides detailed comparison information for each continuing Utility for the fiscal year ended June 30, 2009, compared to the fiscal years ended June 30, 2008 and 2007.

REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

Government-Wide Financial Statements

One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Utilities' assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Utilities' net assets may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Activities presents information showing how the Utilities' net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report one kind of activity:

- Business type activities include the Electric, Water, Sewer, Gas and Communications (Wireless Internet) utility departments. These activities are financed primarily by user charges.

Fund Financial Statements

The Utilities has one kind of fund:

Proprietary funds are used to account for the Utilities' Enterprise Funds. These funds report services for which the Utilities charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Electric, Water, Sewer, Gas and Communications (Wireless Internet) Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

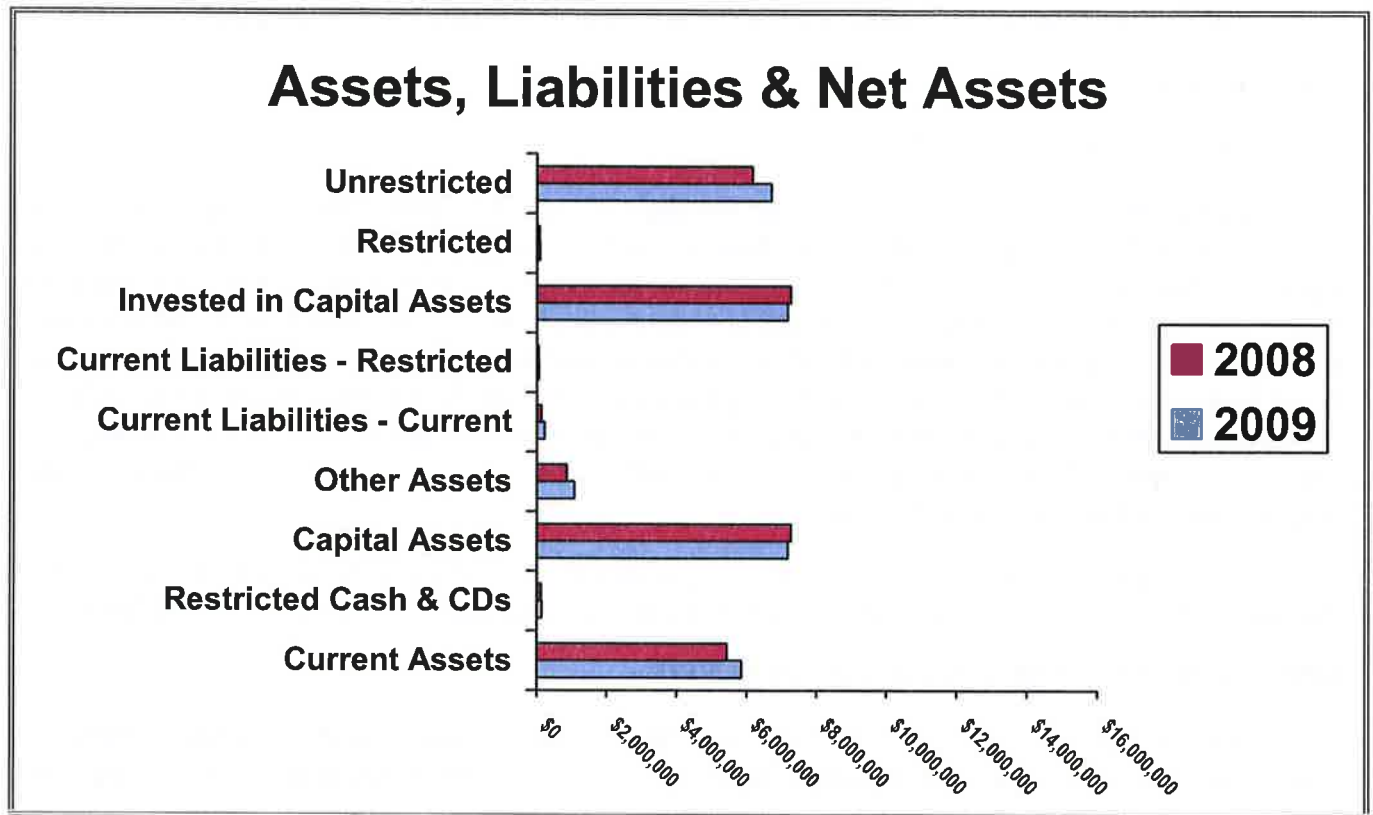
The financial statements required for proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for business type activities from a year ago.

	Net Assets at Year End	
	June 30, 2009	June 30, 2008
Current Assets	\$ 5,849,654	5,435,569
Restricted Cash and CDs	135,552	120,089
Capital Assets (Net)	7,177,648	7,266,470
Other Assets	1,078,525	861,869
Total Assets	14,241,379	13,683,997
Current Liabilities		
(Payable from Current Assets)	216,529	131,883
Current Liabilities		
(Payable from Restricted Assets)	53,000	46,334
Total Liabilities	269,529	178,217
Net Assets:		
Invested in Capital Assets,		
Net of Related Debt	7,177,648	7,266,470
Restricted	82,552	73,755
Unrestricted	6,711,650	6,165,555
Total Net Assets	\$ 13,971,850	13,505,780

The “Other Assets” category consists of the amount the Utilities has incurred for the Lewis & Clark project membership.



The largest portion of the Utilities’ net assets is invested in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment and construction work in progress) (51.4% of the net assets total for fiscal year ended June 30, 2009). For fiscal years ended June 30, 2009 and June 30, 2008, there is no capital assets related external debt. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used (0.6% of the net assets total for fiscal year ended June 30, 2009). Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is \$6,711,650 (48.0% of the net assets total for fiscal year ended June 30, 2009) at the end of this fiscal year.

Changes in Net Assets		
For the Year Ended		
	June 30, 2009	June 30, 2008
Revenues:		
Program Revenues:		
Charges for Services	\$ 3,762,348	3,903,499
General Revenues:		
Gain on Sale of Capital Assets	0	23,475
Rentals	7,886	11,224
Customer Penalties	2,144	2,513

Interest Income	180,478	261,182
Miscellaneous Income	214	7
Insurance Income	0	1,539
Gas Rate Case Settlement	3,456	2,481
Free Community Service Agreement	4,234	0
Total Revenues	<u>3,960,760</u>	<u>4,205,920</u>
Program Expenses:		
Electric	1,750,820	1,663,483
Water	395,931	418,941
Sewer	199,243	204,278
Gas	1,497,204	1,726,892
Internet	27,502	91,466
Total Expenses	<u>3,870,700</u>	<u>4,105,060</u>
Special Items:		
WTFAP Grant	7,013	12,244
Membership Termination – NPGA	368,997	0
Total Special Items	<u>376,010</u>	<u>12,244</u>
Increase in Net Assets	466,070	113,104
Net Assets Beginning of Year	<u>13,505,780</u>	<u>13,392,676</u>
Net Assets End of Year	<u>\$ 13,971,850</u>	<u>13,505,780</u>

The “Increase in Net Assets” from fiscal year ended June 30, 2009 compared to June 30, 2008 was higher by \$352,966 (312.1%). The Utilities total net assets increased 3.5% during the fiscal year ended June 30, 2009. The reason the amount of “Increase in Net Assets” was higher was due to receiving \$368,997 as the result of terminating membership in NPGA. Without the \$368,997 from NPGA membership termination, the “Increase in Net Assets” would have been \$97,073, a decrease of \$16,031 (14.2%) compared to last fiscal year.

Interest income dropped by \$80,704 (30.9%) in fiscal year 2009 compared to fiscal year 2008. The decrease was a result of a continuing downward trend in interest rates.

INDIVIDUAL MAJOR FUND ANALYSIS

Operating Revenues

Electric operating revenues were \$1,740,040, up \$169,257 or 10.8% from the previous fiscal year, due mainly to a rate increase implemented at the beginning of the fiscal year.

Water operating revenues were \$504,857, up \$23,084 or 4.8% from the previous fiscal year, due mainly to this being the first full fiscal year since the January 1, 2008 rate increase.

Sewer operating revenues were \$238,451, down \$4,199 or 1.8% from the previous fiscal year, due mainly to a slight decrease in water sales volume.

Gas operating revenues were \$1,262,493, down \$255,273 or 16.9% from the previous fiscal year, due mainly to a decrease in customers' purchased gas adjustment billings as a result of lower natural gas commodity prices.

Communications (Wireless Internet) operating revenues were \$16,507 before the discontinuance of providing services on October 15, 2008.

Operating Expenses

Electric operating expenses were \$1,750,395, up \$87,904 or 5.3% from last fiscal year, due mainly to an increase in purchased power costs.

Water operating expenses were \$363,883, down \$21,403 or 5.6% from last fiscal year, due to less scheduled maintenance projects this fiscal year.

Sewer operating expenses were \$193,701, down \$4,397 or 2.3% from last fiscal year, due mainly to a slight decrease in maintenance projects this fiscal year.

Gas operating expenses were \$1,454,657, down \$270,805 or 15.7% from last fiscal year, due mainly to a decrease in prices paid for the natural gas commodity

Communications (Wireless Internet) operating expenses were \$21,674 during this fiscal year.

Net Assets

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2009 with a \$5,700,730 net asset balance compared to the prior year ending net asset balance of \$5,628,794 (\$71,936 increase or 1.3%). The prior fiscal year change was a decrease of \$2,183. Of the \$71,936 increase in net assets, \$28,903 was the result of the Communications (Wireless Internet) Fund's remaining assets (cash) being transferred into the Electric Fund during this fiscal year.

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2009 with a \$2,774,335 net asset balance compared to the prior year ending net asset balance of \$2,661,172 (\$113,163 increase or 4.3%). The prior fiscal year change was an increase of \$91,192.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2009 with a \$968,395 net asset balance compared to the prior year ending net asset balance of \$921,212 (\$47,183 increase or 5.2%). The prior fiscal year change was an increase of \$60,610.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2009 with a \$4,528,390 net asset balance compared to the prior year ending net asset balance of \$4,255,781 (\$272,609 increase or 6.4%). The prior fiscal year change was a decrease of \$35,950. The \$308,559 increase between the fiscal years was the result of \$368,997 in membership termination money received from the National Public Gas Agency.

The Communications (Wireless Internet) Fund, which accounted for the operation and maintenance of the wireless internet system, ended fiscal year 2009 with a \$0 net asset balance compared to the prior year ending net asset balance of \$38,821 (\$38,821 decrease or 100%). Fiscal year 2009 ended with an operating loss of \$5,167, nonoperating expenses exceeding nonoperating revenues by \$4,751 and an operating transfer out to the Electric Fund of \$28,903.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Rock Rapids Municipal Utilities amended its budget one time. The amendment was done in May 2009. This amendment was done to decrease the cost of capital improvements.

Receipts came in \$62,755 over budget. The Gas Fund receipts came in \$341,320 over budget while the Electric, Water, Sewer and Communications Funds combined came in \$278,565 under budget.

Disbursements came in \$512,750 under budget. The Electric Fund came in \$340,752 under budget, the Water Fund came in \$260,138 over budget, the Sewer Fund came in \$49,641 under budget, the Gas Fund came in \$408,625 under budget and the Communications Fund came in \$26,130 over budget.

The Utilities budgets on the cash basis but maintains its records on an accrual basis; therefore, accurate cash basis budgeting is a challenge for the Utilities.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Please see Note 5 to the financial statements for more information about the Utilities' capital assets and related depreciation. The major additions during the fiscal year were for utility plant, a mower, a drilling machine with air power operator and a pickup insert. Utility plant additions were for electric utility line improvements.

Construction in progress at June 30, 2009 consists of the electric fiber installation project, the water main project (water distribution system improvements), the wastewater treatment system disinfection facilities improvements project and the gas related elevator project.

Long-Term Debt

The Utilities did not have any external long-term debt outstanding at June 30, 2009. Please see Note 4 for internal loans made from the Gas Fund to the Water and Sewer Funds.

ECONOMIC FACTORS

The Rock Rapids Municipal Utilities, in the present and near future, is experiencing lower retail sales. This downturn comes from the economic conditions and the initiative from the state for energy efficiency in both gas and electric. These lower sales, along with continued pressure from rising electric purchased power costs, will be a challenge to the Board of Trustees and staff in the coming years.

Prices for purchased power continue to rise. The Electric Utility expects to see a 13.3% increase from Western Area Power Agency in the coming year. This provider supplies 70% of all Rock Rapids energy. The Electric Utility will also see larger capital outlays, as work is completed on both its substation and distribution system.

The Water Utility should complete its connection to the Lewis and Clark system in the next fiscal year. This supplemental supply, although allowing an increase in sales, will require additional costs related to its infrastructure.

The Natural Gas Utility has seen its commodity costs fall and sales rise in the fourth quarter of calendar year 2009. The majority of increased sales have come from a source that is sporadic in purchases. This increase will lead to the Natural Gas Utility returning to profitability in the coming fiscal year, but does not predict sales/profits for the extended future.

CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and entities we have dealings with a general overview of the Utilities' finances and activities. If you have questions about this report or need additional financial information, contact Jim Hoyer, General Manager, 310 S. 3rd St., Rock Rapids, Iowa.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Basic Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2009

	<u>Business Type Activities</u>
Assets	
Current Assets:	
Cash	\$ 1,298,785
Certificates of Deposit	4,130,000
Accounts Receivable	169,216
Due From Other Governments (Related Party)	5,187
Due From Other Governments	19,381
Interest Receivable	39,407
Flex Spending Receivable	3,541
Inventory	123,248
Prepaid Expenses	60,889
Total Current Assets	<u>5,849,654</u>
Restricted Cash:	
Customer Deposits	53,000
Depreciation Reserves	82,552
Total Restricted Cash	<u>135,552</u>
Capital Assets:	
Land	179,729
Utility Plant	14,251,741
Transportation Equipment	240,850
Office Equipment	70,477
Tools and Safety Devices	281,962
Communication Equipment	10,503
Meter Testing Equipment	21,903
Total Capital Assets (Before W.I.P.)	15,057,165
Less: Accumulated Depreciation	<u>(8,298,483)</u>
Capital Assets – Net (Before W.I.P.)	6,758,682
Construction Work in Progress	418,966
Net Capital Assets	<u>7,177,648</u>
Other Assets:	
Lewis & Clark Project Membership (Related Party)	<u>1,078,525</u>
Total Assets	<u><u>14,241,379</u></u>

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Net Assets
June 30, 2009

	<u>Business Type Activities</u>
Liabilities	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	80,859
Due to Other Governments (Related Party)	17,534
Due to Other Governments	12,921
Contracts Payable	7,761
Accrued Vacation and Sick Pay	63,352
Accrued Payroll and Payroll Liabilities	9,285
Unearned Income	24,817
Total Current Liabilities (Payable From Current Assets)	<u>216,529</u>
Liabilities Payable From Restricted Cash:	
Customer Deposits	<u>53,000</u>
Total Liabilities	<u>269,529</u>
Net Assets	
Invested in Capital Assets	7,177,648
Restricted for:	
Depreciation Reserves	82,552
Unrestricted	<u>6,711,650</u>
Total Net Assets	<u><u>\$ 13,971,850</u></u>

See Notes to Financial Statements

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Activities
For the Fiscal Year Ended June 30, 2009

		<u>Program Revenues</u>	Net (Expense)
	Expenses	Charges for Services	Revenue & Changes in Net Assets
Functions/Programs:			
Business Type Activities:			
Electric Utility	\$ 1,750,820	1,740,040	(10,780)
Water Utility	395,931	504,857	108,926
Sewer Utility	199,243	238,451	39,208
Gas Utility	1,497,204	1,262,493	(234,711)
Communications (Wireless Internet) Utility	27,502	16,507	(10,995)
Total	<u>\$ 3,870,700</u>	<u>3,762,348</u>	<u>(108,352)</u>
General Revenues:			
Rentals			2,886
Rentals (Related Party)			5,000
Customer Penalties			2,144
Miscellaneous Income			214
Gas Rate Case Settlement			3,456
Interest Income			142,888
Interest Income (Water, Sewer Funds)			37,590
Free Community Service Agreement			4,234
Total General Revenues			<u>198,412</u>
Special Items:			
WTFAP Grant			7,013
Membership Termination - NPGA (Related Party)			368,997
Total Special Items			<u>376,010</u>
Change in Net Assets			466,070
Net Assets Beginning of Year			<u>13,505,780</u>
Net Assets End of Year			<u>\$ 13,971,850</u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Statement of Net Assets

Proprietary Funds

June 30, 2009

		Enterprise Funds			
		Electric Utility	Water Utility	Sewer Utility	Gas Utility
		Total			
Assets					
Current Assets:					
Cash	\$	430,622	441,098	215,887	211,178
Certificates of Deposit		1,205,000	0	0	2,925,000
Accounts Receivable		97,579	39,276	17,754	14,607
Due From Other Funds		0	0	0	63,553
Due From Other Governments (Related Party)		4,120	646	214	207
Due From Other Governments		9,926	791	7,597	1,067
Interest Receivable		10,642	0	0	28,765
Flex Spending Receivable		3,541	0	0	0
Inventory		51,230	27,137	0	44,881
Prepaid Expenses		25,887	15,177	9,140	10,685
Total Current Assets		1,838,547	524,125	250,592	3,299,943
					5,913,207
Restricted Cash:					
Customer Deposits		16,207	4,590	0	32,203
Depreciation Reserves		0	0	82,552	0
Total Restricted Cash		16,207	4,590	82,552	32,203
					135,552
Capital Assets:					
Land		47,127	118,525	0	14,077
Utility Plant		7,801,837	3,573,476	2,008,624	867,804
Transportation Equipment		111,468	18,330	38,380	72,672
Office Equipment		36,626	11,948	4,421	17,482
Tools and Safety Devices		130,314	46,508	25,865	79,275
Communication Equipment		8,548	1,955	0	0
Meter Testing Equipment		16,235	5,668	0	0
Total Capital Assets (Before W.I.P.)		8,152,155	3,776,410	2,077,290	1,051,310
Less: Accumulated Depreciation		(4,196,554)	(2,225,009)	(1,353,018)	(523,902)
					(8,298,483)

Capital Assets – Net (Before W.I.P.)	3,955,601	1,551,401	724,272	527,408	6,758,682
Construction Work in Progress	6,586	365,023	32,477	14,880	418,966
Net Capital Assets	3,962,187	1,916,424	756,749	542,288	7,177,648
Other Assets:					
Advances To Other Funds	0	0	0	755,243	755,243
Lewis & Clark Project Membership (Related Party)	0	1,078,525	0	0	1,078,525
Total Other Assets	0	1,078,525	0	755,243	1,833,768
Total Assets	5,816,941	3,523,664	1,089,893	4,629,677	15,060,175
Liabilities					
Current Liabilities (Payable From Current Assets):					
Accounts Payable	62,022	11,879	3,851	3,107	80,859
Due To Other Fund	0	49,505	14,048	0	63,553
Due To Other Governments (Related Party)	168	90	45	17,231	17,534
Due To Other Governments	10,126	1,482	203	1,110	12,921
Contracts Payable	0	7,761	0	0	7,761
Accrued Vacation and Sick Pay	24,469	11,697	7,193	19,993	63,352
Accrued Payroll and Payroll Liabilities	3,219	1,937	1,303	2,826	9,285
Unearned Income	0	0	0	24,817	24,817
Total Current Liabilities (Payable From Current Assets)	100,004	84,351	26,643	69,084	280,082
Liabilities Payable From Restricted Cash:					
Customer Deposits	16,207	4,590	0	32,203	53,000
Long Term Debt:					
Advance From Other Fund	0	660,388	94,855	0	755,243
Total Liabilities	116,211	749,329	121,498	101,287	1,088,325
Net Assets					
Invested in Capital Assets, Net of Related Debt	3,962,187	1,916,424	647,889	542,288	7,068,788
Restricted for:					
Depreciation Reserves	0	0	82,552	0	82,552
Unrestricted	1,738,543	857,911	237,954	3,986,102	6,820,510
Total Net Assets	\$ 5,700,730	2,774,335	968,395	4,528,390	13,971,850

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2009

	Enterprise Funds					Communications		Total
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Utility	(Wireless Internet)	Utility	
Operating Revenues:								
Residential Sales	\$ 854,114	0	0	1,197,423	16,507			2,068,044
Commercial Sales	840,430	0	0	41,022	0			881,452
Public Street and Highway Lighting	27,458	0	0	0	0			27,458
Wind Power – Residential and Commercial	564	0	0	0	0			564
Water Sales – Metered	0	257,641	0	0	0			257,641
Water Sales – Rural Water System	0	241,175	0	0	0			241,175
Water Sales – Tank Loads	0	2,613	0	0	0			2,613
Sewer Service	0	0	237,568	0	0			237,568
Material and Service Sales	11,087	797	0	103	0			11,987
Service Income	3,296	864	0	830	0			4,990
Service Income (Related Party)	3,091	1,767	883	3,091	0			8,832
Propane Sold	0	0	0	20,024	0			20,024
Total Operating Revenues	1,740,040	504,857	238,451	1,262,493	16,507			3,762,348
Operating Expenses:								
Production/Processing Expense	1,032,432	76,898	97,238	1,068,820	12,828			2,288,216
Distribution Expense	152,197	81,426	0	101,149	886			335,658
Accounting and Collecting	30,253	15,042	5,934	27,258	1,123			79,610
Administrative and General	175,741	80,669	40,627	131,671	5,622			434,330
Free Community Service (Related Party)	108,970	0	4,327	51,000	0			164,297
Free Community Service	9,045	1,400	0	11,300	0			21,745
Transportation	5,160	2,859	2,584	4,059	0			14,662
Depreciation	211,860	86,430	33,760	39,561	854			372,465
Payroll Taxes	24,737	19,159	9,231	19,839	361			73,327
Total Operating Expenses	1,750,395	363,883	193,701	1,454,657	21,674			3,784,310

Operating Income (Loss)	(10,355)	140,974	44,750	(192,164)	(5,167)	(21,962)
Nonoperating Revenues (Expenses):						
Rentals	206	1,680	0	0	1,000	2,886
Rentals (Related Party)	5,000	0	0	0	0	5,000
Customer Penalties	691	96	104	1,243	10	2,144
Miscellaneous Income	214	0	0	0	0	214
Gas Rate Case Settlement	0	0	0	3,456	0	3,456
Interest Income	43,468	2,461	858	96,034	67	142,888
Interest Income (Water, Sewer Funds)	0	0	0	37,590	0	37,590
Free Community Service Agreement	4,234	0	0	0	0	4,234
Interest Expense	(425)	0	0	(817)	(41)	(1,283)
Interest Expense (Gas Fund)	0	(32,048)	(5,542)	0	0	(37,590)
Loss on Sale of Capital Assets	0	0	0	(41,730)	0	(41,730)
Loss on Sale of Communications Utility	0	0	0	0	(5,787)	(5,787)
Net Nonoperating Revenues (Expenses)	53,388	(27,811)	(4,580)	95,776	(4,751)	112,022
Change in Net Assets Before Special Items and Other Financing Source (Use)	43,033	113,163	40,170	(96,388)	(9,918)	90,060
Special Items:						
WTFAP Grant	0	0	7,013	0	0	7,013
Membership Termination - NPGA (Related Party)	0	0	0	368,997	0	368,997
Total Special Items	0	0	7,013	368,997	0	376,010
Other Financing Source (Use):						
Operating Transfers In (Out)	28,903	0	0	0	(28,903)	0
Change in Net Assets After Special Items and Other Financing Source (Use)	71,936	113,163	47,183	272,609	(38,821)	466,070
Net Assets Beginning of Year	5,628,794	2,661,172	921,212	4,255,781	38,821	13,505,780
Net Assets End of Year	\$ 5,700,730	2,774,335	968,395	4,528,390	0	13,971,850

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2009

	Enterprise Funds					
	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	Total
Cash Flows From Operating Activities:						
Cash Received from Customers and Users	\$ 1,698,106	510,991	243,686	1,373,001	25,837	3,851,621
Cash Received from Interfund Services Provided	52,368	3,181	0	5,906	328	61,783
Cash Received from Other Revenues	9,654	1,680	0	3,456	1,000	15,790
Cash Paid to Suppliers/Outside Service Providers	(1,156,229)	(55,731)	(38,487)	(1,150,241)	(23,018)	(2,423,706)
Cash Paid for Personal Services (Employees)	(242,335)	(183,047)	(86,017)	(199,664)	(3,112)	(714,175)
Cash Paid for Interfund Services Used	(6,709)	(27,483)	(27,354)	(236)	0	(61,782)
Cash Paid for Free Community Service (Related Party)	(108,970)	0	(4,327)	(51,000)	0	(164,297)
Cash Paid for Free Community Service	(9,045)	(1,400)	0	(11,300)	0	(21,745)
Net Cash Provided By (Used For) Operating Activities	236,840	248,191	87,501	(30,078)	1,035	543,489
Cash Flows From Noncapital Financing Activities:						
Principal Payments on Interfund Loan from the Gas Utility	0	(37,344)	0	0	0	(37,344)
Interest Paid on Interfund Loan from the Gas Utility	0	(32,613)	0	0	0	(32,613)
Operating Transfers In (Out)	28,903	0	0	0	(28,903)	0
Net Cash Provided By (Used For) Noncapital Financing Activities	28,903	(69,957)	0	0	(28,903)	(69,957)
Cash Flows From Capital and Related Financing Activities:						
Principal Payments on Interfund Loan from the Gas Utility	0	0	(13,353)	0	0	(13,353)
Interest Paid on Interfund Loan from the Gas Utility	0	0	(5,547)	0	0	(5,547)
Proceeds from Sale of Capital Assets	0	0	0	48,859	6,087	54,946
Purchases/Construction of Capital Assets	(117,075)	(208,787)	(11,156)	(32,471)	0	(369,489)
Special Item: WTFAP Grant Proceeds	0	0	12,244	0	0	12,244
Net Cash Provided By (Used For) Capital and Related Financing Activities	(117,075)	(208,787)	(17,812)	16,388	6,087	(321,199)

Cash Flows From Investing Activities:									
Principal Received on Interfund Loans	0	0	0	0	50,697	0	50,697	0	50,697
Interest Received on Interfund Loans	0	0	0	0	38,160	0	38,160	0	38,160
Cashed In (Purchase of) Non Cash Equivalent									
Certificates of Deposit (Net)	(250,000)	55,000	0	(780,000)		0	(975,000)		
Interest Received	43,254	3,207	943	98,592		67	146,063		
Customer Penalties Received	691	96	104	1,243		10	2,144		
Paid Toward Lewis & Clark Project Membership	0	(215,932)	0	0		0	(215,932)		
Special Item: Membership Termination - NPGA (Related Party)	0	0	0	368,997		0	368,997		
Net Cash Provided By (Used For) Investing Activities	(206,055)	(157,629)	1,047	(222,311)		77	(584,871)		
Net Increase (Decrease) in Cash and Cash Equivalents									
	(57,387)	(188,182)	70,736	(236,001)		(21,704)	(432,538)		
Cash and Cash Equivalents Beginning of Year	504,216	633,870	227,703	479,382		21,704	1,866,875		
Cash and Cash Equivalents End of Year	\$ 446,829	445,688	298,439	243,381		0	1,434,337		

Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:									
Operating Income (Loss)	\$ (10,355)	140,974	44,750	(192,164)		(5,167)	(21,962)		
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:									
Depreciation	211,860	86,430	33,760	39,561		854	372,465		
Proceeds from Rentals	206	1,680	0	0		1,000	2,886		
Proceeds from Rentals (Related Party)	5,000	0	0	0		0	5,000		
Proceeds from Miscellaneous Income	214	0	0	0		0	214		
Proceeds from Gas Rate Case Settlement	0	0	0	3,456		0	3,456		
Proceeds from Free Community Service Agreement	4,234	0	0	0		0	4,234		
Deposit Interest Paid	(425)	0	0	(817)		(41)	(1,283)		
Changes in Assets and Liabilities:									
Decrease in Accounts Receivable	15,395	8,991	5,222	77,631		6,537	113,776		
Decrease (Increase) in Due From Other Governments (Related Party)	(1,398)	(204)	(6)	3,692		108	2,192		
Decrease (Increase) in Due From Other Governments (Non WTFAP Grant Related)	(4,776)	(242)	18	6,479		36	1,515		

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2009

Enterprise Funds

	Electric Utility	Water Utility	Sewer Utility	Gas Utility	Communications (Wireless Internet) Utility	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities (Continued):						
Adjustments to Reconcile Operating Income						
(Loss) to Net Cash Provided By (Used For)						
Operating Activities (Continued):						
Changes in Assets and Liabilities (Continued):						
(Increase) in Flex Spending Receivable	(3,541)	0	0	0	0	(3,541)
Decrease (Increase) in Inventory	(13,326)	3,842	0	1,630	3,913	(3,941)
Decrease (Increase) in Prepaid Expenses	(3,350)	(280)	(272)	(1,652)	62	(5,492)
Increase (Decrease) in Customer Deposits (Cash)	1,419	770	0	5,413	(936)	6,666
Increase (Decrease) in Accounts Payable	30,201	5,544	1,424	1,801	(4,229)	34,741
(Non Capital Assets/ Other Assets Related)						
Increase (Decrease) in Due to Other						
Governments (Related Party)	168	90	45	(791)	0	(488)
Increase (Decrease) in Due to Other Governments	4,511	74	(33)	(1,308)	0	3,244
Increase (Decrease) in Accrued						
Vacation and Sick Pay	1,647	699	2,056	1,658	(1,014)	5,046
Increase (Decrease) in Accrued Payroll						
& Payroll Liabilities	917	(177)	537	1,185	(88)	2,374
(Decrease) in Flex Spending Payable	(1,555)	0	0	0	0	(1,555)
Increase (Decrease) in Unearned Income	(206)	0	0	24,148	0	23,942
Net Cash Provided By (Used For)						
Operating Activities	\$ 236,840	248,191	87,501	(30,078)	1,035	543,489

Reconciliation of Cash and Cash Equivalents at
Year End to Specific Assets Included on the

Statement of Net Assets:

Current Assets:

Cash

Restricted Cash :

Customer Deposits (Cash)

Depreciation Reserves (Cash)

\$	430,622	441,098	215,887	211,178	0	1,298,785
	16,207	4,590	0	32,203	0	53,000
	0	0	82,552	0	0	82,552
\$	446,829	445,688	298,439	243,381	0	1,434,337

Cash and Cash Equivalents at Year End

See Notes to Financial Statements.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Notes to Financial Statements
June 30, 2009

(1) Summary of Significant Accounting Policies

The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids, which is a political subdivision of the State of Iowa located in Lyon County, Iowa and operated under the Home Rule provisions of the Constitution of Iowa. The Rock Rapids Municipal Utilities provides electric, water, sewer, and gas utilities and related services to its customers. The Rock Rapids Municipal Utilities provided communications (wireless Internet) utility and related services to its customers until the Utilities approved the sale of the Communications Utility capital assets and inventory effective October 15, 2008. As of October 15, 2008, the Utilities discontinued offering wireless Internet services. The Rock Rapids Municipal Utilities is established and operated in accordance with Chapter 388 of the Code of Iowa. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

The financial statements of the Rock Rapids Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Rock Rapids Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Rock Rapids Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

As previously noted, the Rock Rapids Municipal Utilities is a component unit of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. The City of Rock Rapids appoints the Utilities' governing body as already disclosed.

The Rock Rapids Municipal Utilities made contributions to the City of Rock Rapids in the amount of \$164,297 (reported as free community service – related party) and reimbursed the City of Rock Rapids for the Utilities share of a construction contract in the amount of \$131,006 (the Utilities also accrued an additional \$7,761, reported as contracts payable, as of June 30, 2009 for this construction contract). The City of Rock Rapids paid the Rock Rapids Municipal Utilities \$5,000 for rent and \$8,832 for garbage/recycling billing and collection services. The construction contract is for water distribution system improvements (please see Note 13 for additional information) during the fiscal year ended June 30, 2009. The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other (these costs have not been presented in the financial statements).

Joint Ventures – The Utilities is a participant in joint ventures that provide goods and/or services to the Utilities. There is ongoing financial interest and responsibility by the Utilities and other participating members, which is reflected through the price each joint venture charges to provide the goods and/or services to the Utilities and other participating members. The Utilities has this ongoing financial interest and responsibility as a member of the National Public Gas Agency, the Missouri River Energy Services and the Lewis & Clark Regional Water System, Inc. The Utilities terminated membership in the National Public Gas Agency as of the end of July 2009. The Utilities purchased gas and paid dues to the National Public Gas Agency in the amount of \$1,065,173 and \$860, respectively. The Utilities received \$368,997 from the National Public Gas Agency during the fiscal year ended June 30, 2009 for terminating membership at the end of July 2009 (this membership termination revenue has been reported as a “special item”). The Utilities paid the Missouri River Energy Services \$975,140 for power and energy services, \$2,511 for dues and \$275 for meeting registrations. The Utilities received \$74,639 from the Missouri River Energy Services as a reimbursement for monthly capacity generation fees and generator costs and \$7,852 as a reimbursement for the “Bright Energy Solutions Program.” Please see Note 6 for information on the Lewis & Clark Regional Water System, Inc. Financial information on each joint venture is not included with the Utilities’ financial statements. In order to obtain financial information and financial statements on each joint venture to determine whether each joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or burden on the Utilities, please contact the Utilities Manager at the Utilities office.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements, except for interfund service billings and interest charged for interfund loans. Business type activities rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the Utilities’ assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, consists of capital assets, net of accumulated depreciation.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function/program are offset by program revenues. Direct expenses are those clearly identifiable with a specific function/program. Function/program revenues can include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function/program, when applicable. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the proprietary funds. Major individual proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds (the Utilities considers all the funds the Utilities has as major):

Enterprise:

The Electric Utility Fund is used to account for the operation and maintenance of the Utilities' electric system.

The Water Utility Fund is used to account for the operation and maintenance of the Utilities' water system.

The Sewer Utility Fund is used to account for the operation and maintenance of the Utilities' sanitary sewer system.

The Gas Utility Fund is used to account for the operation and maintenance of the Utilities' gas system.

The Communications (Wireless Internet) Utility Fund was used to account for the operation and maintenance of the Utilities' high speed wireless Internet service until discontinuance on October 15, 2008.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Under terms of some grant agreements, the Utilities may fund certain qualifying expenses by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when qualifying expenses are incurred, there are both restricted and unrestricted net assets available to finance the qualifying expenses. It is the Utilities' policy to first apply cost-reimbursement grant resources to such qualifying expenses, followed by categorical block grants and then by general revenues.

The proprietary funds of the Utilities apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. The principal operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, community service donations and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses, including rental income, customer penalties, miscellaneous income, gas rate case settlement, interest income, free community service agreement, interest expense, sale/disposal of capital assets and sale of the communications (wireless Internet) utility.

The Utilities maintains its financial records on the accrual basis of accounting.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the financial statements:

Cash, Certificates of Deposit and Cash Equivalents – The cash balances of most of the Utilities funds are pooled and invested. Interest earned on investments is allocated to the appropriate fund. Investments on June 30, 2009 consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term investments that are highly liquid (including restricted cash) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a

maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2009 included all of the certificates of deposit.

Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Accounts receivable represents money owed to the Utilities, mainly for utility sales, that was not paid to the Utilities as of June 30, 2009.

Due from and Due to Other Funds/Advance to and Advance from Other Funds – During the course of its operations, the Utilities has numerous transactions between funds and the Utilities also approved some interfund loans. To the extent certain transactions and the loans between funds had not been paid or received as of June 30, 2009, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments (Related Party) – Due from other governments (related party) represents amounts due from the City of Rock Rapids for charges for sales and services provided.

Due from Other Governments – Due from other governments represents amounts due from other governments for charges for sales and services provided and for WTFAP grant proceeds.

Inventory – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed or sold rather than when purchased.

Prepaid Expenses – Prepaid expenses represents insurance premium and other expense payments that will benefit a future fiscal year. Prepayments are recorded as expenses when utilized rather than when paid for.

Restricted Cash – Funds set aside for deposits held by the Utilities (customer deposits restricted for application to unpaid customer accounts or for refund to customers) and per Federal EPA requirements (depreciation reserves - provide cash for repair and replacement of equipment, including the eventual replacement of the entire wastewater treatment plant).

Capital Assets – Capital assets, which include property, utility system improvements, vehicles and equipment, are reported in the business type activities column in the government-wide Statement of Net Assets and in the appropriate Enterprise Fund column in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets acquired prior to July 1, 2004 are defined by the Utilities as assets with initial, individual costs in excess of \$500 and estimated useful lives in excess of two years. Reportable capital assets acquired after June 30, 2004 are defined by the Utilities as assets with initial, individual costs in excess of the following thresholds and have estimated useful lives in excess of two years.

Asset Class	Amount
Utility Plant	\$10,000
All Other Asset Classes	\$ 5,000

Capital assets of the Utilities are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Utility Plant	5 - 50 years
Transportation Equipment	5 years
Office Equipment	5 - 10 years
Tools and Safety Devices	5 - 10 years
Communication Equipment	5 - 10 years
Meter Testing Equipment	5 - 7 years

Construction projects that have not been completed as of June 30, 2009 are reported as "Construction Work in Progress" on the balance sheet.

Lewis & Clark Project Membership (Related Party) – This represents membership costs to date related to the Lewis & Clark Regional Water System, Inc. project. The membership costs include the Utilities pro rata share of the base system incremental costs and directly paid member specific incremental costs.

Due to Other Governments/Due to Other Governments (Related Party) – This represents state sales and use taxes, garbage and recycling collections, and payments for services and reimbursements which will be remitted to other governments and the City of Rock Rapids.

Accrued Vacation and Sick Pay – The Utilities' personnel policy provides full-time employees with vacation and sick leave in varying amounts. Vacation and sick pay expenses for non-vested employees are charged to operations when taken by the employee. Vacation and sick pay expenses for vested employees are charged to operations when earned by the employee. At termination, an employee is paid for accumulated vested vacation time. The amount recorded in the accounts for vested vacation pay aggregated \$33,934 at June 30, 2009.

An employee who has been employed by the Utilities for over ten years, but less than fifteen years, and terminates employment due to retirement or death is entitled to 15% of unused accumulated allowable sick leave benefits. An employee who has been employed by the Utilities for over fifteen years and terminates employment for any reason, other than dismissal, is entitled to 15% of accumulated allowable sick leave. As of June 30, 2009, employees' vested sick leave benefits aggregated \$29,418. Aggregated vested sick leave benefits (15% of accumulated allowable sick leave) are included in the accounts.

A summary of changes in accrued vacation and sick pay is as follows:

	Accrued Vacation	Sick Pay	Total
Balance Beginning of Year	\$ 30,351	27,955	58,306
Increases	39,717	2,557	42,274
Decreases	(36,134)	(1,094)	(37,228)
Balance End of Year	\$ 33,934	29,418	63,352

These liabilities have been computed based on rates of pay in effect at June 30, 2009 and are recorded in the government-wide and proprietary fund financial statements as current liabilities as these liabilities are expected to be payable within a year.

Unearned Income – Amounts received on customer accounts before being billed are recorded in the “unearned income” account. Revenue is reported in the period in which it is realized or realizable and earned; therefore, when payments on accounts are received in advance of being earned, the amount applicable to future periods is deferred to future periods. The amount unearned is considered a liability because it represents an obligation to perform a service in the future arising from a past transaction.

Net Assets: Restricted – In the proprietary fund financial statements, restricted net assets are reported for amounts legally restricted by outside parties for use for a specific purpose. The amount of net assets restricted at June 30, 2009 is computed as follows:

	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Total
Total Restricted Cash	\$ 16,207	4,590	82,552	32,203	135,552
Deposits Payable	16,207	4,590	0	32,203	53,000
Retained Earnings:					
Reserved (June 30, 2009)	\$ 0	0	82,552	0	82,552

The retained earnings reserved in the Sewer Utility Fund is for required depreciation reserves per Federal EPA requirements.

Net Assets: Invested in Capital Assets and Invested in Capital Assets, Net of Related Debt
The “invested in capital assets” is reported in the Government-Wide Statement of Net Assets as \$7,177,648 and the “invested in capital assets, net of related debt” in the Proprietary Funds Statement of Net Assets as \$7,068,788. The \$108,860 difference is due to the removal of the capital related debt (debt attributable to the acquisition, construction or improvement of capital assets) owed by the Sewer Utility to the Gas Utility. The effect of this interfund loan was removed from the Government-Wide Statement of Net Assets as only external debt is reflected in that financial statement.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements in the business type activities function for the Rock Rapids Municipal Utilities did not exceed the amount

budgeted as part of the City of Rock Rapids' adopted budget. The budgetary comparison is prepared by making memorandum adjusting entries to the accrual basis financial records to convert the records to the cash basis (the basis upon which the adopted budget is prepared).

(2) Communications (Wireless Internet) Utility/Interfund Transfers

As noted previously, the Utilities discontinued offering wireless Internet services as of October 15, 2008. On October 15, 2008, the Utilities sold all of the wireless Internet inventory and capital assets for \$10,000. The Utilities realized a \$5,787 loss on the sale (reported as loss on sale of communications utility).

During the fiscal year ended June 30, 2009, the Communications (Wireless Internet) Utility Fund was closed out by transferring the \$28,903 in remaining assets (cash) to the Electric Utility (reported as operating transfers in and out in these respective funds). The Electric Utility Fund original assisted with the start up of the Communications (Wireless Internet) Utility Fund on January 31, 2002.

(3) Cash and Investments

The Utilities' deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No 3, as amended by Statement No. 40.

Board Designated Reserves. The Utilities Board has designated money to be set aside as reserves for economic development, depreciation, and the Lewis & Clark Project. The money designated for these purposes is included in the unrestricted (current assets) cash balances as of June 30, 2009 as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves on June 30, 2009 is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve	Total
Electric Utility Fund	\$ 11,680	\$ 117,558	\$ 0	\$ 129,238
Water Utility Fund	1,316	53,592	49,083	103,991
Gas Utility Fund	7,286	0	0	7,286
Total	\$ 20,282	\$ 171,150	\$ 49,083	\$ 240,515

(4) Due from and Due to Other Funds/Advance to and Advance from Other Funds

On January 27, 2006, the Gas Utility Fund loaned \$400,000 to the Water Utility Fund to assist with the payment of Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$35,409 and final maturity date is January 27, 2022. During the fiscal year ended June 30, 2009, the Water Utility Fund paid the Gas Utility Fund \$19,285 in principal and \$16,124 in interest on this loan. The June 30, 2009 balance on this loan was \$344,479.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 20,181	15,228	35,409
2011	21,073	14,336	35,409
2012	22,004	13,405	35,409
2013	22,943	12,466	35,409
2014	23,992	11,417	35,409
2015-2019	136,811	40,233	177,044
2020-2022	97,475	8,751	106,226
Total	\$ 344,479	115,836	460,315

On March 28, 2007, the Gas Utility Fund loaned an additional \$390,257 to the Water Utility Fund to assist with the payment of additional Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$34,548 and final maturity date is March 28, 2023. During the fiscal year ended June 30, 2009, the Water Utility Fund paid the Gas Utility Fund \$18,059 in principal and \$16,489 in interest on this loan. The June 30, 2009 balance on this loan was \$354,948.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 18,858	15,690	34,548
2011	19,691	14,857	34,548
2012	20,523	14,025	34,548
2013	21,469	13,079	34,548
2014	22,418	12,130	34,548
2015-2019	127,830	44,910	172,740
2020-2023	124,159	14,034	138,193
Total	\$ 354,948	128,725	483,673

On March 27, 2006, the Gas Utility Fund loaned \$150,000 to the Sewer Utility Fund for utility plant capital asset costs. The loan carries a 4.7754 annual percentage interest rate, monthly payments are scheduled at \$1,575 and final maturity date is March 27, 2016. During the fiscal year ended June 30, 2009, the Sewer Utility Fund paid the Gas Utility Fund \$13,353 in principal and \$5,547 in interest on this loan. The June 30, 2009 balance on this loan was \$108,860.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 14,005	4,895	18,900
2011	14,688	4,212	18,900
2012	15,396	3,504	18,900
2013	16,157	2,743	18,900
2014	16,946	1,954	18,900
2015-2016	31,668	1,407	33,075
Total	\$ 108,860	18,715	127,575

The balances in the “due from and due to other funds” and “advance to and advance from other funds” are for the aforementioned loans between funds and accrued interest on these loans as follows:

Assets/Liabilities	Payable		Receivable
	Water Utility	Sewer Utility	Gas Utility
Due From/To:			
Loan (Current Portion)	\$ (39,039)	(14,005)	53,044
Accrued Interest on Loans	(10,466)	(43)	10,509
Total Due From/To	\$ (49,505)	(14,048)	63,553
Advance To/From:			
Loan (Noncurrent Portion)	(660,388)	(94,855)	755,243
Total	\$ (709,893)	(108,903)	818,796

(5) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 184,429	0	(4,700)	179,729
Construction Work in Progress	170,866	350,198	(102,098)	418,966
Total Capital Assets Not Being Depreciated	355,295	350,198	(106,798)	598,695

Capital Assets Being Depreciated:				
Utility Plant	14,290,435	102,098	(140,792)	14,251,741
Transportation Equipment	233,782	10,732	(3,664)	240,850
Office Equipment	72,196	0	(1,719)	70,477
Tools and Safety Devices	256,786	25,176	0	281,962
Communication Equipment	167,204	0	(156,701)	10,503
Meter Testing Equipment	21,903	0	0	21,903
Total Capital Assets Being Depreciated	15,042,306	138,006	(302,876)	14,877,436
Less Accumulated Depreciation For:				
Utility Plant	7,549,358	324,555	(54,904)	7,819,009
Transportation Equipment	165,982	21,990	(3,662)	184,310
Office Equipment	56,260	3,076	(1,677)	57,659
Tools and Safety Devices	183,108	21,990	0	205,098
Communication Equipment	154,520	854	(144,870)	10,504
Meter Testing Equipment	21,903	0	0	21,903
Total Accumulated Depreciation	8,131,131	372,465	(205,113)	8,298,483
Total Capital Assets Being Depreciated, Net	6,911,175	(234,459)	(97,763)	6,578,953
Business Type Capital Assets, Net	\$7,266,470	115,739	(204,561)	7,177,648

Depreciation expense was charged to the different Utilities as follows:

Business Type Activities:	
Electric Utility	\$ 211,860
Water Utility	86,430
Sewer Utility	33,760
Gas Utility	39,561
Communications (Wireless Internet) Utility	854
Total Depreciation Expense – Business Type Activities	<u>\$ 372,465</u>

(6) Lewis & Clark Project Membership – Related Party

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with the Lewis and Clark Regional Water System, Inc. to become a member in Lewis & Clark Regional Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Regional Water System, Inc. In the amended and restated commitment agreement, the Utilities agrees to pay the Utilities' allocated construction percentage of the base system costs (examples: administrative, overhead, engineering, financing, debt service, legal costs and fees), related membership/lobbying fees and to directly pay for design and construction of service lines plus any other member specific costs. As of June 30, 2009, the Utilities has paid/accrued \$1,078,525 toward the cost of membership, which includes base system costs, related

membership/lobbying fees and some member specific costs (\$216,656 was paid/accrued during fiscal year ended June 30, 2009).

As of June 30, 2009, the Utilities has paid all of its projected allocated construction percentage of the base system costs. There have been no formal projections of the continuing related membership/lobbying fees or of the member specific costs to be incurred yet as of June 30, 2009.

If the Rock Rapids Municipal Utilities would withdraw from membership in Lewis & Clark Regional Water System, Inc., the Utilities would forfeit all amounts paid to Lewis & Clark Regional Water System, Inc., whether in the form of membership fees, construction payments or amounts placed or on deposit in the Maintenance and Repair Fund, the Capital Improvement Fund or the Operating Reserve Fund.

Upon completion of the project, the Rock Rapids Municipal Utilities agrees to purchase a minimum of 137,500 gallons of potable, treated water per day, on average, each month at the water rates and charges set by Lewis & Clark Regional Water System, Inc.

(7) Due to Other Governments/Due to Other Governments – Related Party

The Utilities purchases services from other governmental units, remits sales and use tax to the State of Iowa, reimburses the City of Rock Rapids for expenses, and remits garbage and recycling collections to the City of Rock Rapids.

A summary of amounts due to other governments follows:

Fund	Description	Amount
Electric Utility	State Sales and Use Tax	\$ 10,126
Water Utility	State Sales and Use Tax	1,482
Sewer Utility	State Sales and Use Tax	203
Gas Utility	State Sales and Use Tax and Services	1,110
Total		<u>\$ 12,921</u>

A summary of amounts due to other governments-related party (City of Rock Rapids) follows:

Fund	Description	Amount
Electric Utility	Expense Reimbursement	\$ 168
Water Utility	Expense Reimbursement	90
Sewer Utility	Expense Reimbursement	45
Gas Utility	Garbage/Recycling Collections and Expense Reimbursement	17,231
Total		<u>\$ 17,534</u>

(8) WTFAP Grant – “Special Item”

The Rock Rapids Municipal Utilities has been awarded an Iowa Finance Authority Wastewater Treatment Financial Assistance Program (WTFAP) Grant. The WTFAP Grant is to help offset up to 60% of the costs incurred by the Utilities to construct improvements to disinfection facilities. The improvements to the wastewater treatment system are to comply with water quality standards adopted by the Iowa Department of Natural Resources in 2006. The WTFAP Grant award is for up to \$111,135 (60% of \$185,225 in budgeted project costs). For the fiscal year ended June 30, 2009, the Utilities is reporting WTFAP Grant income of \$7,013 in the Sewer Utility Fund (reported as a “special item”). As of June 30, 2009, a total of \$19,257 of the possible \$111,135 WTFAP Grant has been recorded as revenue in the Sewer Utility Fund.

(9) Major Customer

Lyon and Sioux Rural Water System, Inc. is a major customer of the Water Utility. Water sales to Lyon and Sioux Rural Water System, Inc., amounted to \$241,175 or 47.8% of the total operating water revenues for the fiscal year ended June 30, 2009.

(10) Pension and Retirement Benefits

The Rock Rapids Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the Municipal Utilities is required to contribute 6.35% of covered salary. Contribution requirements are established by state statute. The Utilities’ contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$33,462, \$30,720, and \$28,370, respectively, equal to the required contributions for each year.

(11) Risk Management

The Rock Rapids Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Employee Health Insurance Coverage

The Rock Rapids Municipal Utilities provided group health insurance coverage for eligible employees through the Sanford Health Plan during the fiscal year ended June 30, 2009. As of June 30, 2009, the Utilities is assuming liability for claims against the insurance deductible of up to \$250 under an individual policy and \$500 for an employee plus one or a family policy. The Utilities expense for insurance premiums and any deductibles paid for health insurance coverage is accounted for in the appropriate utility fund.

(13) Commitments

In October 2006, the Utilities committed up to \$200,000 to be paid from the Sewer Utility Fund to the City of Rock Rapids to participate in the funding of phase I of the rehabilitation of the sanitary sewer lines. Of the amount committed, \$100,000 was paid during the fiscal year ended June 30, 2007 (reported as a special item). Nothing additional was paid on this commitment during the fiscal year ended June 30, 2009. The remaining commitment of up to an additional \$100,000 will be paid as progression is made on this project in the future.

During the fiscal year ended June 30, 2008, the Rock Rapids Municipal Utilities and the City of Rock Rapids started a joint construction project for improvements to the water distribution system (Utilities) and streets (City). The City signed the contract for the entire project. The City is paying all requests on the contract with the Utilities reimbursing the City for the costs related to the water mains portion of the construction project. The Utilities share of the estimated cost of the project is \$190,702. As of June 30, 2009, costs of \$155,219 have been incurred by the Utilities on this contract and \$147,459 paid by the Utilities on this contract. The remaining estimated cost of \$43,243 will be paid as work on the project progresses.

In August 2008, the Utilities approved loaning \$140,000 at a 2.5% interest rate to the Rock Rapids Development Corporation for the purpose of the Development Corporation purchasing 28 acres of land for economic development opportunities. The loan is to be secured by a real estate mortgage on the 28 acres of land. The loan will be made when requested by the Rock Rapids Development Corporation.

The Utilities has been approved for a \$300,000 USDA Rural Utility Services Grant. The Utilities has committed a \$60,000 match from the Gas Utility Fund when the grant is completely processed and received. The grant and match will be used to start a revolving loan program.

In March 2009, the Utilities entered into a contract for \$93,300 for a disinfection equipment addition project. As of June 30, 2009, no costs had been incurred on the project. Payment for the project will be made from the Sewer Fund as work on the project progresses.

(14) Subsequent Events

The Utilities reimbursed the City of Rock Rapids \$43,243 in October 2009 for the final payment on the water distribution system improvements project contract.

In December 2009, the Utilities loaned the Rock Rapids Development Corporation the \$140,000 approved in August 2008.

(15) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Required Supplementary Information

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule of
Receipts, Disbursements and Changes in Balances –
Budget and Actual (Cash Basis) – All Proprietary Funds

Required Supplementary Information

For the Fiscal Year Ended June 30, 2009

	Proprietary Funds	Budgeted	Amounts	Final to Actual
	Actual	Original	Final	Variance
Receipts (Charges for Fees and Service):				
Electric Utility	\$ 1,832,976	1,977,662	1,977,662	(144,686)
Water Utility	481,811	505,338	505,338	(23,527)
Sewer Utility	243,624	278,252	278,252	(34,628)
Gas Utility	1,988,911	1,647,591	1,647,591	341,320
Communications (Wireless Internet) Utility	4,426	80,150	80,150	(75,724)
Total Receipts (Charges for Fees and Service)	4,551,748	4,488,993	4,488,993	62,755
Disbursements (Business Type/Enterprises Activities Function):				
Electric Utility	1,640,363	1,961,015	1,981,115	340,752
Water Utility	724,992	621,204	464,854	(260,138)
Sewer Utility	172,889	389,702	222,530	49,641
Gas Utility	1,444,912	1,688,037	1,853,537	408,625
Communications (Wireless Internet) Utility	26,130	82,010	0	(26,130)
Total Disbursements (Business Type/Enterprises Activities Function)	4,009,286	4,741,968	4,522,036	512,750
Excess (Deficiency) of Receipts Over (Under) Disbursements	542,462	(252,975)	(33,043)	575,505
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year	5,021,875	4,728,388	4,728,388	293,487
Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year	\$ 5,564,337	4,475,413	4,695,345	868,992

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

For the Fiscal Year Ended June 30, 2009

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Receipts/Revenues	\$ 4,551,748	(214,978)	4,336,770
Disbursements/Expenses	4,009,286	(138,586)	3,870,700
Net	542,462	(76,392)	466,070
Beginning Net Assets	5,021,875	8,483,905	13,505,780
Ending Net Assets	\$ 5,564,337	8,407,513	13,971,850

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids

Notes to Required Supplementary Information – Budgetary Reporting

For the Fiscal Year Ended June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for each major individual utility fund.

In accordance with the Code of Iowa, the Utilities Board of Trustees annually approves a budget on the cash basis of accounting. The Utilities Board of Trustees submits the approved budget to the Rock Rapids City Council. The cash basis budget is adopted by the Rock Rapids City Council following required public notice and hearing for all funds. The budget is included in the City of Rock Rapids budget. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances and accruals are not recognized on the cash basis budget and appropriations lapse at year end.

The Utilities budgeted its receipts under the “charges for fees and service” classification. Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These nine functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type/enterprises activities. All Utility disbursements are included in the “business type/enterprises activities” function classification on the City’s adopted budget and are required to be budgeted. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$219,932. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements in the business type activities function for the Rock Rapids Municipal Utilities did not exceed the amount budgeted as part of the City of Rock Rapids’ adopted budget.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Other Supplementary Information

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund
Comparative Statements of Net Assets

	June 30,			
	2009	2008	Amount of Change	Percentage of Change
Assets				
Current Assets:				
Cash	\$ 430,622	489,428	(58,806)	(12%)
Certificates of Deposit	1,205,000	955,000	250,000	26%
Accounts Receivable	97,579	112,974	(15,395)	(14%)
Due From Other Governments (Related Party)	4,120	2,722	1,398	51%
Due From Other Governments	9,926	5,150	4,776	93%
Interest Receivable	10,642	10,427	215	2%
Flex Spending Receivable	3,541	0	3,541	N/A
Inventory	51,230	37,904	13,326	35%
Prepaid Expenses	25,887	22,537	3,350	15%
Total Current Assets	1,838,547	1,636,142	202,405	12%
Restricted Cash:				
Customer Deposits	16,207	14,788	1,419	10%
Capital Assets:				
Land	47,127	47,127	0	0%
Utility Plant	7,801,837	7,699,739	102,098	1%
Transportation Equipment	111,468	115,132	(3,664)	(3%)
Office Equipment	36,626	37,048	(422)	(1%)
Tools and Safety Devices	130,314	111,997	18,317	16%
Communication Equipment	8,548	16,206	(7,658)	(47%)
Meter Testing Equipment	16,235	16,235	0	0%
Total Capital Assets (Before W.I.P)	8,152,155	8,043,484	108,671	1%
Less: Accumulated Depreciation	(4,196,554)	(3,996,438)	(200,116)	5%
Capital Assets – Net (Before W.I.P)	3,955,601	4,047,046	(91,445)	(2%)
Construction Work in Progress	6,586	0	6,586	N/A
Net Capital Assets	3,962,187	4,047,046	(84,859)	(2%)
Total Assets	5,816,941	5,697,976	118,965	2%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Electric Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	62,022	21,894	40,128	183%
Due To Other Governments (Related Party)	168	0	168	N/A
Due To Other Governments	10,126	5,615	4,511	80%
Accrued Vacation and Sick Pay	24,469	22,822	1,647	7%
Accrued Payroll and Payroll Liabilities	3,219	2,302	917	40%
Flex Spending Payable	0	1,555	(1,555)	(100%)
Unearned Income	0	206	(206)	(100%)
Total Current Liabilities (Payable From Current Assets)	100,004	54,394	45,610	84%
Liabilities Payable From Restricted Cash:				
Customer Deposits	16,207	14,788	1,419	10%
Total Liabilities	116,211	69,182	47,029	68%
Net Assets				
Invested in Capital Assets	3,962,187	4,047,046	(84,859)	(2%)
Unrestricted	1,738,543	1,581,748	156,795	10%
Total Net Assets	\$ 5,700,730	5,628,794	71,936	1%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2009	2007		
Assets				
Current Assets:				
Cash	\$ 430,622	328,043	102,579	31%
Certificates of Deposit	1,205,000	965,000	240,000	25%
Accounts Receivable	97,579	123,543	(25,964)	(21%)
Due From Other Governments (Related Party)	4,120	2,979	1,141	38%
Due From Other Governments	9,926	6,111	3,815	62%
Interest Receivable	10,642	20,626	(9,984)	(48%)
Flex Spending Receivable	3,541	850	2,691	317%
Inventory	51,230	47,319	3,911	8%
Prepaid Expenses	25,887	23,230	2,657	11%
Notes Receivable – Rock Rapids Development Corporation	0	12,500	(12,500)	(100%)
Total Current Assets	1,838,547	1,530,201	308,346	20%
Restricted Cash:				
Customer Deposits	16,207	14,673	1,534	10%
Capital Assets:				
Land	47,127	47,127	0	0%
Utility Plant	7,801,837	7,349,756	452,081	6%
Transportation Equipment	111,468	105,020	6,448	6%
Office Equipment	36,626	37,048	(422)	(1%)
Tools and Safety Devices	130,314	106,974	23,340	22%
Communication Equipment	8,548	16,206	(7,658)	(47%)
Meter Testing Equipment	16,235	16,235	0	0%
Total Capital Assets (Before W.I.P)	8,152,155	7,678,366	473,789	6%
Less: Accumulated Depreciation	(4,196,554)	(3,794,587)	(401,967)	11%
Capital Assets – Net (Before W.I.P)	3,955,601	3,883,779	71,822	2%
Construction Work in Progress	6,586	265,366	(258,780)	(98%)
Net Capital Assets	3,962,187	4,149,145	(186,958)	(5%)
Total Assets	5,816,941	5,694,019	122,922	2%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Electric Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2007		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	62,022	19,278	42,744	222%
Due To Other Governments (Related Party)	168	0	168	N/A
Due To Other Governments	10,126	5,511	4,615	84%
Accrued Vacation and Sick Pay	24,469	19,140	5,329	28%
Accrued Payroll and Payroll Liabilities	3,219	3,161	58	2%
Unearned Income	0	1,279	(1,279)	(100%)
Total Current Liabilities (Payable From Current Assets)	100,004	48,369	51,635	107%
Liabilities Payable From Restricted Cash:				
Customer Deposits	16,207	14,673	1,534	10%
Total Liabilities	116,211	63,042	53,169	84%
Net Assets				
Invested in Capital Assets	3,962,187	4,149,145	(186,958)	(5%)
Unrestricted	1,738,543	1,481,832	256,711	17%
Total Net Assets	\$ 5,700,730	5,630,977	69,753	1%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2008		
Operating Revenues:				
Residential Sales	\$ 854,114	705,333	148,781	21%
Commercial Sales	840,430	800,350	40,080	5%
Public Street and Highway Lighting	27,458	22,884	4,574	20%
Wind Power – Residential and Commercial	564	582	(18)	(3%)
Material and Service Sales	11,087	34,510	(23,423)	(68%)
Service Income	3,296	4,033	(737)	(18%)
Service Income (Related Party)	3,091	3,091	0	0%
Total Operating Revenues	1,740,040	1,570,783	169,257	11%
Operating Expenses:				
Production/Processing Expense	1,032,432	912,709	119,723	13%
Distribution Expense	152,197	148,964	3,233	2%
Accounting and Collecting	30,253	30,246	7	0%
Administrative and General	175,741	190,952	(15,211)	(8%)
Free Community Service (Related Party)	108,970	105,691	3,279	3%
Free Community Service	9,045	27,454	(18,409)	(67%)
Transportation	5,160	12,643	(7,483)	(59%)
Depreciation	211,860	208,900	2,960	1%
Payroll Taxes	24,737	24,932	(195)	(1%)
Total Operating Expenses	1,750,395	1,662,491	87,904	5%
Operating Loss	(10,355)	(91,708)	81,353	(89%)
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	0	15,775	(15,775)	(100%)
Rentals	206	544	(338)	(62%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	691	733	(42)	(6%)
Miscellaneous Income	214	7	207	2,957%
Insurance Income	0	1,539	(1,539)	(100%)
Interest Income	43,468	66,919	(23,451)	(35%)
Free Community Service Agreement	4,234	0	4,234	N/A
Interest Expense	(425)	(992)	567	(57%)
Net Nonoperating Revenues (Expenses)	53,388	89,525	(36,137)	(40%)
Change in Net Assets Before Other Financing Source	43,033	(2,183)	45,216	(2,071%)
Other Financing Source:				
Operating Transfers In	28,903	0	28,903	N/A
Change in Net Assets After Other Financing Source	71,936	(2,183)	74,119	(3,395%)
Net Assets Beginning of Year	5,628,794	5,630,977	(2,183)	0%
Net Assets End of Year	\$ 5,700,730	5,628,794	71,936	1%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Electric Utility Fund

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2007		
Operating Revenues:				
Residential Sales	\$ 854,114	703,890	150,224	21%
Commercial Sales	840,430	821,694	18,736	2%
Public Street and Highway Lighting	27,458	23,001	4,457	19%
Wind Power – Residential and Commercial	564	618	(54)	(9%)
Material and Service Sales	11,087	24,344	(13,257)	(54%)
Service Income	3,296	5,186	(1,890)	(36%)
Service Income (Related Party)	3,091	3,091	0	0%
Total Operating Revenues	1,740,040	1,581,824	158,216	10%
Operating Expenses:				
Production/Processing Expense	1,032,432	858,990	173,442	20%
Distribution Expense	152,197	173,656	(21,459)	(12%)
Accounting and Collecting	30,253	30,772	(519)	(2%)
Administrative and General	175,741	162,300	13,441	8%
Free Community Service (Related Party)	108,970	139,323	(30,353)	(22%)
Free Community Service	9,045	23,361	(14,316)	(61%)
Transportation	5,160	10,524	(5,364)	(51%)
Depreciation	211,860	203,895	7,965	4%
Payroll Taxes	24,737	24,974	(237)	(1%)
Total Operating Expenses	1,750,395	1,627,795	122,600	8%
Operating Loss	(10,355)	(45,971)	35,616	(77%)
Nonoperating Revenues (Expenses):				
Rentals	206	544	(338)	(62%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties	691	814	(123)	(15%)
Miscellaneous Income	214	73	141	193%
Interest Income	43,468	64,070	(20,602)	(32%)
Free Community Service Agreement	4,234	0	4,234	N/A
Interest Expense	(425)	(787)	362	(46%)
Net Nonoperating Revenues (Expenses)	53,388	69,714	(16,326)	(23%)
Change in Net Assets Before Other Financing Source	43,033	23,743	19,290	81%
Other Financing Source:				
Operating Transfers In	28,903	0	28,903	N/A
Change in Net Assets After Other Financing Source	71,936	23,743	48,193	203%
Net Assets Beginning of Year	5,628,794	5,607,234	21,560	0%
Net Assets End of Year	\$ 5,700,730	\$ 5,630,977	\$ 69,753	1%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2008		
Assets				
Current Assets:				
Cash	\$ 441,098	630,050	(188,952)	(30%)
Certificates of Deposit	0	55,000	(55,000)	(100%)
Accounts Receivable	39,276	48,267	(8,991)	(19%)
Due From Other Governments (Related Party)	646	442	204	46%
Due From Other Governments	791	549	42	44%
Interest Receivable	0	746	(746)	(100%)
Inventory	27,137	30,979	(3,842)	(12%)
Prepaid Expenses	15,177	14,897	280	2%
Total Current Assets	524,125	780,930	(256,805)	(33%)
Restricted Cash:				
Customer Deposits	4,590	3,820	770	20%
Capital Assets:				
Land	118,525	118,525	-	0%
Utility Plant	3,573,476	3,573,476	-	0%
Transportation Equipment	18,330	18,330	-	0%
Office Equipment	11,948	12,189	(241)	(2%)
Tools and Safety Devices	46,508	46,508	-	0%
Communication Equipment	1,955	1,955	-	0%
Meter Testing Equipment	5,668	5,668	-	0%
Total Capital Assets (Before W.I.P.)	3,776,410	3,776,651	241)	0%
Less: Accumulated Depreciation	(2,225,009)	(2,138,820)	(86,189)	4%
Capital Assets - Net (Before W.I.P.)	1,551,401	1,637,831	(86,430)	(5%)
Construction Work in Progress	365,023	149,549	215,474	144%
Net Capital Assets	1,916,424	1,787,380	129,044	7%
Other Assets:				
Lewis & Clark Project Membership (Related Party)	1,078,525	861,869	216,656	25%
Total Assets	3,523,664	3,433,999	89,665	3%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	11,879	6,685	5,194	78%
Due To Other Fund	49,505	48,375	1,130	2%
Due To Other Governments (Related Party)	90	0	90	N/A
Due To Other Governments	1,482	1,408	74	5%
Contracts Payable	7,761	0	7,761	N/A
Accrued Vacation and Sick Pay	11,697	10,998	699	6%
Accrued Payroll and Payroll Liabilities	1,937	2,114	(177)	(8%)
Total Current Liabilities (Payable From Current Assets)	84,351	69,580	14,771	21%
Liabilities Payable From Restricted Cash:				
Customer Deposits	4,590	3,820	770	20%
Long Term Debt:				
Advance From Other Fund	660,388	699,427	(39,039)	(6%)
Total Liabilities	749,329	772,827	(23,498)	(3%)
Net Assets				
Invested in Capital Assets	1,916,424	1,787,380	129,044	7%
Unrestricted	857,911	873,792	(15,881)	(2%)
Total Net Assets	\$ 2,774,335	2,661,172	113,163	4%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Water Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2009	2007		
Assets				
Current Assets:				
Cash	\$ 441,098	801,489	(360,391)	(45%)
Certificates of Deposit	0	75,000	(75,000)	(100%)
Accounts Receivable	39,276	41,233	(1,957)	(5%)
Due From Other Governments (Related Party)	646	571	75	13%
Due From Other Governments	791	624	167	27%
Interest Receivable	0	4,626	(4,626)	(100%)
Inventory	27,137	35,347	(8,210)	(23%)
Prepaid Expenses	15,177	15,632	(455)	(3%)
Total Current Assets	524,125	974,522	(450,397)	(46%)
Restricted Cash:				
Customer Deposits	4,590	1,780	2,810	158%
Capital Assets:				
Land	118,525	118,525	-	0%
Utility Plant	3,573,476	3,568,376	5,100	0%
Transportation Equipment	18,330	18,330	-	0%
Office Equipment	11,948	12,189	(241)	(2%)
Tools and Safety Devices	46,508	45,427	1,081	2%
Communication Equipment	1,955	1,955	-	0%
Meter Testing Equipment	5,668	5,668	-	0%
Total Capital Assets (Before W.I.P.)	3,776,410	3,770,470	5,940	0%
Less: Accumulated Depreciation	(2,225,009)	(2,046,250)	(178,759)	9%
Capital Assets - Net (Before W.I.P.)	1,551,401	1,724,220	(172,819)	(10%)
Construction Work in Progress	365,023	0	365,023	N/A
Net Capital Assets	1,916,424	1,724,220	192,204	11%
Other Assets:				
Lewis & Clark Project Membership (Related Party)	1,078,525	679,888	398,637	59%
Total Assets	3,523,664	3,380,410	143,254	4%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2007		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	11,879	7,327	4,552	62%
Due To Other Fund	49,505	47,333	2,172	5%
Due To Other Governments (Related Party)	90	0	90	N/A
Due To Other Governments	1,482	1,404	78	6%
Contracts Payable	7,761	0	7,761	N/A
Accrued Vacation and Sick Pay	11,697	13,960	(2,263)	(16%)
Accrued Payroll and Payroll Liabilities	1,937	1,855	82	4%
Total Current Liabilities (Payable From Current Assets)	84,351	71,879	12,472	17%
Liabilities Payable From Restricted Cash:				
Customer Deposits	4,590	1,780	2,810	158%
Long Term Debt:				
Advance From Other Fund	660,388	736,771	(76,383)	(10%)
Total Liabilities	749,329	810,430	(61,101)	(8%)
Net Assets				
Invested in Capital Assets	1,916,424	1,724,220	192,204	11%
Unrestricted	857,911	845,760	12,151	1%
Total Net Assets	\$ 2,774,335	2,569,980	204,355	8%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2008		
Operating Revenues:				
Water Sales – Metered	\$ 257,641	245,792	11,849	5%
Water Sales – Rural Water System	241,175	226,706	14,469	6%
Water Sales – Tank Loads	2,613	1,115	1,498	134%
Material and Service Sales	797	5,703	(4,906)	(86%)
Service Income	864	690	174	25%
Service Income (Related Party)	1,767	1,767	0	0%
Total Operating Revenues	504,857	481,773	23,084	5%
Operating Expenses:				
Production/Processing Expense	76,898	88,605	(11,707)	(13%)
Distribution Expense	81,426	66,082	15,344	23%
Accounting and Collecting	15,042	15,182	(140)	(1%)
Administrative and General	80,669	100,948	(20,279)	(20%)
Free Community Service (Related Party)	0	1,000	(1,000)	(100%)
Free Community Service	1,400	2,200	(800)	(36%)
Transportation	2,859	3,053	(194)	(6%)
Depreciation	86,430	92,570	(6,140)	(7%)
Payroll Taxes	19,159	15,646	3,513	22%
Total Operating Expenses	363,883	385,286	(21,403)	(6%)
Operating Income	140,974	96,487	44,487	46%
Nonoperating Revenues (Expenses):				
Rentals	1,680	5,680	(4,000)	(70%)
Customer Penalties	96	110	(14)	(13%)
Interest Income	2,461	22,570	(20,109)	(89%)
Interest Expense (Gas Fund)	(32,048)	(33,655)	1,607	(5%)
Net Nonoperating Revenues (Expenses)	(27,811)	(5,295)	(22,516)	425%
Change in Net Assets	113,163	91,192	21,971	24%
Net Assets Beginning of Year	2,661,172	2,569,980	91,192	4%
Net Assets End of Year	\$ 2,774,335	2,661,172	113,163	4%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Water Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2007		
Operating Revenues:				
Water Sales – Metered	\$ 257,641	243,227	14,414	6%
Water Sales – Rural Water System	241,175	192,366	48,809	25%
Water Sales – Tank Loads	2,613	2,064	549	27%
Material and Service Sales	797	319	478	150%
Service Income	864	1,016	(152)	(15%)
Service Income (Related Party)	1,767	1,767	0	0%
Total Operating Revenues	504,857	440,759	64,098	15%
Operating Expenses:				
Production/Processing Expense	76,898	75,039	1,859	2%
Distribution Expense	81,426	94,316	(12,890)	(14%)
Accounting and Collecting	15,042	16,602	(1,560)	(9%)
Administrative and General	80,669	94,700	(14,031)	(15%)
Free Community Service (Related Party)	0	5,837	(5,837)	(100%)
Free Community Service	1,400	1,007	393	39%
Transportation	2,859	3,673	(814)	(22%)
Depreciation	86,430	93,606	(7,176)	(8%)
Payroll Taxes	19,159	14,432	4,727	33%
Total Operating Expenses	363,883	399,212	(35,329)	(9%)
Operating Income	140,974	41,547	99,427	239%
Nonoperating Revenues (Expenses):				
Rentals	1,680	5,680	(4,000)	(70%)
Customer Penalties	96	103	(7)	(7%)
Miscellaneous Income	0	190	(190)	(100%)
Interest Income	2,461	32,643	(30,182)	(92%)
Interest Expense (Gas Fund)	(32,048)	(21,794)	(10,254)	47%
Net Nonoperating Revenues (Expenses)	(27,811)	16,822	(44,633)	(65%)
Change in Net Assets	113,163	58,369	54,794	94%
Net Assets Beginning of Year	2,661,172	2,511,611	149,561	6%
Net Assets End of Year	\$ 2,774,335	2,569,980	204,355	8%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,			
	2009	2008	Amount of Change	Percentage of Change
Assets				
Current Assets:				
Cash	\$ 215,887	153,948	61,939	40%
Accounts Receivable	17,754	22,976	(5,222)	(23%)
Due From Other Governments (Related Party)	214	208	6	3%
Due From Other Governments	7,597	12,846	(5,249)	(41%)
Interest Receivable	0	85	(85)	(100%)
Prepaid Expenses	9,140	8,868	272	3%
Total Current Assets	250,592	198,931	51,661	26%
Restricted Cash:				
Depreciation Reserves	82,552	73,755	8,797	12%
Capital Assets:				
Utility Plant	2,008,624	2,008,624	0	0%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	4,421	4,542	(121)	(3%)
Tools and Safety Devices	25,865	25,865	0	0%
Total Capital Assets (Before W.I.P.)	2,077,290	2,077,411	(121)	0%
Less: Accumulated Depreciation	(1,353,018)	(1,319,379)	(33,639)	3%
Capital Assets - Net (Before W.I.P.)	724,272	758,032	(33,760)	(4%)
Construction Work in Progress	32,477	21,317	11,160	52%
Net Capital Assets	756,749	779,349	(22,600)	(3%)
Total Assets	1,089,893	1,052,035	37,858	4%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,851	2,423	1,428	59%
Due to Other Fund	14,048	13,401	647	5%
Due To Other Governments (Related Party)	45	0	45	N/A
Due To Other Governments	203	236	(33)	(14%)
Accrued Vacation and Sick Pay	7,193	5,137	2,056	40%
Accrued Payroll and Payroll Liabilities	1,303	766	537	70%
Total Current Liabilities (Payable From Current Assets)	26,643	21,963	4,680	21%
Long Term Debt:				
Advance From Other Fund	94,855	108,860	(14,005)	(13%)
Total Liabilities	121,498	130,823	(9,325)	(7%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	647,889	657,136	(9,247)	(1%)
Restricted for:				
Depreciation Reserves	82,552	73,755	8,797	12%
Unrestricted	237,954	190,321	47,633	25%
Total Net Assets	\$ 968,395	921,212	47,183	5%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,			
	2009	2007	Amount of Change	Percentage of Change
Assets				
Current Assets:				
Cash	\$ 215,887	94,169	121,718	129%
Certificates of Deposit	0	20,000	(20,000)	(100%)
Accounts Receivable	17,754	25,464	(7,710)	(30%)
Due From Other Governments (Related Party)	214	279	(65)	(23%)
Due From Other Governments	7,597	553	7,044	1,274%
Interest Receivable	0	1,238	(1,238)	(100%)
Prepaid Expenses	9,140	9,857	(717)	(7%)
Total Current Assets	250,592	151,560	99,032	65%
Restricted Cash:				
Depreciation Reserves	82,552	62,989	19,563	31%
Capital Assets:				
Utility Plant	2,008,624	2,008,624	0	0%
Transportation Equipment	38,380	38,380	0	0%
Office Equipment	4,421	4,542	(121)	(3%)
Tools and Safety Devices	25,865	25,865	0	0%
Total Capital Assets (Before W.I.P.)	2,077,290	2,077,411	(121)	0%
Less: Accumulated Depreciation	(1,353,018)	(1,284,315)	(68,703)	5%
Capital Assets - Net (Before W.I.P.)	724,272	793,096	(68,824)	(9%)
Construction Work in Progress	32,477	0	32,477	N/A
Net Capital Assets	756,749	793,096	(36,347)	(5%)
Total Assets	1,089,893	1,007,645	82,248	8%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2007		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,851	7,326	(3,475)	(47%)
Due to Other Fund	14,048	12,769	1,279	10%
Due To Other Governments (Related Party)	45	0	45	N/A
Due To Other Governments	203	218	(15)	(7%)
Accrued Vacation and Sick Pay	7,193	3,725	3,468	93%
Accrued Payroll & Payroll Liabilities	1,303	792	511	65%
Total Current Liabilities (Payable From Current Assets)	26,643	24,830	1,813	7%
Long Term Debt:				
Advance From Other Fund	94,855	122,213	(27,358)	(22%)
Total Liabilities	121,498	147,043	(25,545)	(17%)
Net Assets				
Invested in Capital Assets, Net of Related Debt	647,889	658,167	(10,278)	(2%)
Restricted for:				
Depreciation Reserves	82,552	62,989	19,563	31%
Unrestricted	237,954	139,446	98,508	71%
Total Net Assets	\$ 968,395	860,602	107,793	13%

See Accompanying Independent Auditor's Report.

Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2008		
Operating Revenues:				
Sewer Service	\$ 237,568	241,767	(4,199)	(2%)
Service Income (Related Party)	883	883	0	0%
Total Operating Revenues	238,451	242,650	(4,199)	(2%)
Operating Expenses:				
Production/Processing Expense	97,238	101,917	(4,679)	(5%)
Accounting and Collecting	5,934	5,795	139	2%
Administrative and General	40,627	39,705	922	2%
Free Community Service (Related Party)	4,327	6,383	(2,056)	(32%)
Transportation	2,584	526	2,058	391%
Depreciation	33,760	35,064	(1,304)	(4%)
Payroll Taxes	9,231	8,708	523	6%
Total Operating Expenses	193,701	198,098	(4,397)	(2%)
Operating Income	44,750	44,552	198	0%
Nonoperating Revenues (Expenses):				
Gain on Sale of Capital Assets	0	2,200	(2,200)	(100%)
Customer Penalties	104	133	(29)	(22%)
Interest Income	858	7,661	(6,803)	(89%)
Interest Expense (Gas Fund)	(5,542)	(6,180)	638	(10%)
Net Nonoperating Revenues (Expenses)	(4,580)	3,814	(8,394)	(220%)
Change in Net Assets Before Special Item	40,170	48,366	(8,196)	(17%)
Special Item:				
WTFAP Grant	7,013	12,244	(5,231)	(43%)
Change in Net Assets After Special Item	47,183	60,610	(13,427)	(22%)
Net Assets Beginning of Year	921,212	860,602	60,610	7%
Net Assets End of Year	\$ 968,395	921,212	47,183	5%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Sewer Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2007		
Operating Revenues:				
Sewer Service	\$ 237,568	202,306	35,262	17%
Service Income (Related Party)	883	883	0	0%
Total Operating Revenues	238,451	203,189	35,262	17%
Operating Expenses:				
Production/Processing Expense	97,238	114,428	(17,190)	(15%)
Accounting and Collecting	5,934	6,266	(332)	(5%)
Administrative and General	40,627	36,241	4,386	12%
Free Community Service (Related Party)	4,327	7,367	(3,040)	(41%)
Transportation	2,584	1,072	1,512	141%
Depreciation	33,760	33,367	393	1%
Payroll Taxes	9,231	8,370	861	10%
Total Operating Expenses	193,701	207,111	(13,410)	(6%)
Operating Income (Loss)	44,750	(3,922)	48,672	(1,241%)
Nonoperating Revenues (Expenses):				
Customer Penalties	104	93	11	12%
Interest Income	858	16,115	(15,257)	(95%)
Interest Expense (Gas Fund)	(5,542)	(6,756)	1,214	(18%)
Net Nonoperating Revenues (Expenses)	(4,580)	9,452	(14,032)	(148%)
Change in Net Assets Before Special Items	40,170	5,530	34,640	626%
Special Items:				
WTFAP Grant	7,013	0	7,013	N/A
Free Community Service (Related Party)	0	(100,000)	100,000	(100%)
Total Special Items	7,013	(100,000)	107,013	(107%)
Change in Net Assets After Special Items	47,183	(94,470)	141,653	(150%)
Net Assets Beginning of Year	921,212	955,072	(33,860)	(4%)
Net Assets End of Year	\$ 968,395	860,602	107,793	13%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,			
	2009	2008	Amount of Change	Percentage of Change
Assets				
Current Assets:				
Cash	\$ 211,178	452,592	(241,414)	(53%)
Certificates of Deposit	2,925,000	2,145,000	780,000	36%
Accounts Receivable	14,607	92,238	(77,631)	(84%)
Due From Other Funds	63,553	61,776	1,777	3%
Due From Other Governments (Related Party)	207	3,899	(3,692)	(95%)
Due From Other Governments	1,067	7,546	(6,479)	(86%)
Interest Receivable	28,765	31,323	(2,558)	(8%)
Inventory	44,881	46,511	(1,630)	(4%)
Prepaid Expenses	10,685	9,033	1,652	18%
Total Current Assets	3,299,943	2,849,918	450,025	16%
Restricted Cash:				
Customer Deposits	32,203	26,790	5,413	20%
Capital Assets:				
Land	14,077	18,777	(4,700)	(25%)
Utility Plant	867,804	1,008,596	(140,792)	(14%)
Transportation Equipment	72,672	61,940	10,732	17%
Office Equipment	17,482	17,904	(422)	(2%)
Tools and Safety Devices	79,275	72,416	6,859	9%
Total Capital Assets (Before W.I.P)	1,051,310	1,179,633	(128,323)	(11%)
Less: Accumulated Depreciation	(523,902)	(539,666)	15,764	(3%)
Capital Assets – Net (Before W.I.P)	527,408	639,967	(112,559)	(18%)
Construction Work in Progress	14,880	0	14,880	N/A
Net Capital Assets	542,288	639,967	(97,679)	(15%)
Other Assets:				
Advances To Other Funds	755,243	808,287	(53,044)	(7%)
Total Assets	4,629,677	4,324,962	304,715	7%

Schedule 13 (Continued)

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,		Amount of Change	Percentage of Change
	2009	2008		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,107	1,306	1,801	138%
Due To Other Governments (Related Party)	17,231	18,022	(791)	(4%)
Due To Other Governments	1,110	2,418	(1,308)	(54%)
Accrued Vacation and Sick Pay	19,993	18,335	1,658	9%
Accrued Payroll and Payroll Liabilities	2,826	1,641	1,185	72%
Unearned Income	24,817	669	24,148	3,610%
Total Current Liabilities (Payable From Current Assets)	69,084	42,391	26,693	63%
Liabilities Payable From Restricted Cash:				
Customer Deposits	32,203	26,790	5,413	20%
Total Liabilities	101,287	69,181	32,106	46%
Net Assets				
Invested in Capital Assets	542,288	639,967	(97,679)	(15%)
Unrestricted	3,986,102	3,615,814	370,288	10%
Total Net Assets	\$ 4,528,390	4,255,781	272,609	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund
Comparative Statements of Net Assets**

	June 30,			
	2009	2007	Amount of Change	Percentage of Change
Assets				
Current Assets:				
Cash	\$ 211,178	940,715	(729,537)	(78%)
Certificates of Deposit	2,925,000	1,650,000	1,275,000	77%
Accounts Receivable	14,607	70,164	(55,557)	(79%)
Due From Other Funds	63,553	60,102	3,451	6%
Due From Other Governments (Related Party)	207	3,697	(3,490)	(94%)
Due From Other Governments	1,067	6,011	(4,944)	(82%)
Interest Receivable	28,765	28,688	77	0%
Inventory	44,881	50,986	(6,105)	(12%)
Prepaid Expenses	10,685	9,676	1,009	10%
Notes Receivable – Rock Rapids Development Corporation	0	12,500	(12,500)	(100%)
Total Current Assets	3,299,943	2,832,539	467,404	17%
Restricted Cash:				
Customer Deposits	32,203	27,714	4,489	16%
Capital Assets:				
Land	14,077	18,777	(4,700)	(25%)
Utility Plant	867,804	991,890	(124,086)	(13%)
Transportation Equipment	72,672	61,532	11,140	18%
Office Equipment	17,482	17,904	(422)	(2%)
Tools and Safety Devices	79,275	71,259	8,016	11%
Total Capital Assets (Before W.I.P)	1,051,310	1,161,362	(110,052)	(9%)
Less: Accumulated Depreciation	(523,902)	(520,466)	(3,436)	1%
Capital Assets – Net (Before W.I.P)	527,408	640,896	(113,488)	(18%)
Construction Work in Progress	14,880	0	14,880	N/A
Net Capital Assets	542,288	640,896	(98,608)	(15%)
Other Assets:				
Advances To Other Funds	755,243	858,984	(103,741)	(12%)
Total Assets	4,629,677	4,360,133	269,544	6%

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**
Gas Utility Fund
Comparative Statements of Net Assets

	June 30,		Amount of Change	Percentage of Change
	2009	2007		
Liabilities				
Current Liabilities (Payable From Current Assets):				
Accounts Payable	3,107	1,431	1,676	117%
Due To Other Governments (Related Party)	17,231	19,125	(1,894)	(10%)
Due To Other Governments	1,110	1,266	(156)	(12%)
Accrued Vacation and Sick Pay	19,993	15,543	4,450	29%
Accrued Payroll & Payroll Liabilities	2,826	2,224	602	27%
Unearned Income	24,817	1,099	23,718	2,158%
Total Current Liabilities (Payable From Current Assets)	69,084	40,688	28,396	70%
Liabilities Payable From Restricted Cash:				
Customer Deposits	32,203	27,714	4,489	16%
Total Liabilities	101,287	68,402	32,885	48%
Net Assets				
Invested in Capital Assets	542,288	640,896	(98,608)	(15%)
Unrestricted	3,986,102	3,650,835	335,267	9%
Total Net Assets	4,528,390	4,291,731	236,659	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2008		
Operating Revenues:				
Residential Sales	\$ 1,197,423	1,508,379	(310,956)	(21%)
Commercial Sales	41,022	3,605	37,417	1,038%
Material and Service Sales	103	1,554	(1,451)	(93%)
Service Income	830	1,137	(307)	(27%)
Service Income (Related Party)	3,091	3,091	0	0%
Propane Sold	20,024	0	20,024	N/A
Total Operating Revenues	1,262,493	1,517,766	(255,273)	(17%)
Operating Expenses:				
Production/Processing Expense	1,068,820	1,344,428	(275,608)	(21%)
Distribution Expense	101,149	90,720	10,429	11%
Accounting and Collecting	27,258	27,983	(725)	(3%)
Administrative and General	131,671	133,754	(2,083)	(2%)
Free Community Service (Related Party)	51,000	44,500	6,500	15%
Free Community Service	11,300	22,400	(11,100)	(50%)
Transportation	4,059	4,615	(556)	(12%)
Depreciation	39,561	38,763	798	2%
Payroll Taxes	19,839	18,299	1,540	8%
Total Operating Expenses	1,454,657	1,725,462	(270,805)	(16%)
Operating Loss	(192,164)	(207,696)	15,532	(7%)
Nonoperating Revenues (Expenses):				
Gain (Loss) on Sale of Capital Assets	(41,730)	5,500	(47,230)	(859%)
Customer Penalties	1,243	1,484	(241)	(16%)
Gas Rate Case Settlement	3,456	2,481	975	39%
Interest Income	96,034	123,876	(27,842)	(22%)
Interest Income (Water, Sewer Funds)	37,590	39,835	(2,245)	(6%)
Interest Expense	(817)	(1,430)	613	(43%)
Net Nonoperating Revenues (Expenses)	95,776	171,746	(75,970)	(44%)
Change in Net Assets Before Special Item	(96,388)	(35,950)	(60,438)	168%
Special Item:				
Membership Termination - NPGA (Related Party)	368,997	0	368,997	N/A
Change in Net Assets After Special Item	272,609	(35,950)	308,559	(858%)
Net Assets Beginning of Year	4,255,781	4,291,731	(35,950)	(1%)
Net Assets End of Year	\$ 4,528,390	4,255,781	272,609	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids
Gas Utility Fund**

Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets

	For the Fiscal Year Ended June 30,		Amount of Change	Percentage of Change
	2009	2007		
Operating Revenues:				
Residential Sales	\$ 1,197,423	1,558,864	(361,441)	(23%)
Commercial Sales	41,022	21,815	19,207	88%
Material and Service Sales	103	141	(38)	(27%)
Service Income	830	484	346	71%
Service Income (Related Party)	3,091	3,091	0	0%
Propane Sold	20,024	0	20,024	100%
Total Operating Revenues	1,262,493	1,584,395	(321,902)	(20%)
Operating Expenses:				
Production/Processing Expense	1,068,820	1,289,898	(221,078)	(17%)
Distribution Expense	101,149	83,756	17,393	21%
Accounting and Collecting	27,258	28,769	(1,511)	(5%)
Administrative and General	131,671	129,958	1,713	1%
Free Community Service (Related Party)	51,000	26,265	24,735	94%
Free Community Service	11,300	10,933	367	3%
Transportation	4,059	3,952	107	3%
Depreciation	39,561	39,454	107	0%
Payroll Taxes	19,839	16,702	3,137	19%
Total Operating Expenses	1,454,657	1,629,687	(175,030)	(11%)
Operating Loss	(192,164)	(45,292)	(146,872)	324%
Nonoperating Revenues (Expenses):				
Equity Distributions - NPGA	0	1,262,882	(1,262,882)	(100%)
Gain (Loss) on Sale of Capital Assets	(41,730)	700	(42,430)	(6,061%)
Customer Penalties	1,243	1,749	(506)	(29%)
Gas Rate Case Settlement	3,456	2,518	938	37%
Interest Income	96,034	102,980	(6,946)	(7%)
Interest Income (Water, Sewer Funds)	37,590	28,550	9,040	32%
Interest Expense	(817)	(1,508)	691	(46%)
Net Nonoperating Revenues (Expenses)	95,776	1,397,871	(1,302,095)	(93%)
Change in Net Assets Before Special Item	(96,388)	1,352,579	(1,448,967)	(107%)
Special Item:				
Membership Termination - NPGA (Related Party)	368,997	0	368,997	N/A
Change in Net Assets After Special Item	272,609	1,352,579	(1,079,970)	(80%)
Net Assets Beginning of Year	4,255,781	2,939,152	1,316,629	45%
Net Assets End of Year	\$ 4,528,390	4,291,731	236,659	6%

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
*Government Auditing Standards***

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Independent Auditor's Report on **Internal Control over Financial Reporting and on Compliance and Other Matters** **Based on an Audit of Financial Statements Performed in Accordance with** **Government Auditing Standards**

To the Members of the Utilities Board of Trustees:

We have audited the accompanying financial statements of the business type activities and each major fund of the Rock Rapids Municipal Utilities, a Component Unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our report thereon dated January 26, 2010. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rock Rapids Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Rock Rapids Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Rock Rapids Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Rock Rapids Municipal Utilities' internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Rock Rapids Municipal Utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 09-A, B, D, F and G are material weaknesses.

Compliance and Other Matters

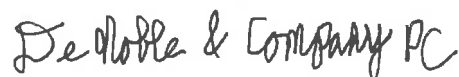
As part of obtaining reasonable assurance about whether the Rock Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Rock Rapids Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utilities' responses, we did not audit the Rock Rapids Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Rock Rapids Municipal Utilities and other parties to whom the Utilities may report, including any grantor entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Rock Rapids Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



De Noble & Company PC
Certified Public Accountants

January 26, 2010

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Schedule of Findings

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

09-A Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of assets and various aspects of the recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its operating procedures to obtain the maximum internal control possible under the circumstances. The Utilities inability to eliminate segregation of duties issues reduces the effectiveness of the Utilities control environment and increases the risk of material errors, theft or fraud not being detected.

Response – We will attempt to segregate duties to the extent possible within economic constraints.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel/governing body members to provide additional control through review of financial transactions and reports.

09-B Job Rotations – Financial personnel's duties are not always rotated for a period of time each fiscal year.

Recommendation – Employees should be cross-trained to be able to perform a fellow employee's duties. The Utilities should utilize this cross-training to have each person's duties done by another employee for a period of time each fiscal year. This is important in case an employee unexpectedly becomes unavailable for an extended period of time and serves as an important aspect in the control environment.

Response – We have cross-trained our employees. We will have our employees rotate duties for a period of time each fiscal year.

Conclusion – Response accepted.

09-C Payroll Procedures – We noted a couple instances where there was no written absentee slip and a couple instances where there was no absentee slip approval documented by the employee's supervisor for compensated absence time payment. The utility coordinator's

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

compensatory time off availability that is earned is not being formally tracked. We noted several instances where there was no supervisor approval noted on an employee's employee time card.

Recommendation – Absentee slips should be completed and approved by an employee's supervisor for all compensated absences before payment is authorized. The utility coordinator's compensatory time off earned should be documented in writing. The amount of the utility coordinator's compensatory time off available to be used upon consent of the utility manager should be formally maintained by the bookkeeper. A supervisor should be noting approval in writing on all employee time cards.

Response – We will continue to work on improving payroll procedures for absentee slips and time cards. We will have our bookkeeper start tracking the utility coordinator's available compensatory time off.

Conclusion – Response accepted. Please address these payroll issues.

09-D Financial Reporting – During the audit, we identified material amounts of assets, liabilities, net assets, revenues and expenses not recorded properly in the Utilities' financial statements and disclosures not properly being reported on in the Utilities' notes to the financial statements. Adjustments/disclosure changes were subsequently made by the Utilities to properly include these amounts and disclosures in the financial statements and notes.

Recommendation – The Utilities should implement procedures to ensure all assets, liabilities, net assets, revenues, expenses and disclosures are identified and included in the Utilities' financial statements and notes. Management should be reviewing the financial records/reporting on a regular basis to help ensure the accuracy of the financial records/reporting.

Response – We will review our current procedures to identify areas where we can improve on our financial records/reporting going forward.

Conclusion – Response accepted.

09-E Capital Assets – Capital assets are not being marked for identification purposes.

Recommendation – Capital assets should be marked for identification purposes to assist in the existence and accountability functions.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

Response – We will attempt to start working on marking capital assets for identification purposes.

Conclusion – Response accepted. Please attempt to work on this issue.

09-F Inventory Records – The Utilities is not consistently following inventory procedures. We noted that there were many changes that needed to be made to the detailed inventory records when the physical inventory count was taken. The inventory records are not monitored on a regular on-going basis.

Recommendation – Inventory procedures and monitoring should be analyzed for ways to increase accuracy, controls and efficiency. The Utilities should consider the possible benefits of computerizing its inventory records.

Response – We will work on developing new inventory procedures that we will be implementing consistently. This will help improve our detailed inventory records.

Conclusion – Response accepted. Please attempt to develop inventory procedures and monitoring that will be consistently applied to increase accuracy, controls and efficiency.

09-G Disbursement Procedures – We noted a couple of small disbursements that did not have any supporting documentation. We noted several instances where the only supporting documentation on file was a copy of a credit card slip (no detailed support). Detailed support for electronic disbursements related to payroll tax payments is not being provided to the persons approving the electronic transaction.

Recommendation – All disbursements, including employee reimbursements and credit card charges, need to be supported by an actual receipt or invoice that supports the disbursement in detail. This receipt or invoice needs to be marked “paid” or otherwise cancelled upon payment to avoid duplicate payment and needs to be retained and filed as proof for the disbursement. The detailed support for payroll taxes needs to be provided to and reviewed by the persons responsible for approving the electronic payroll tax payments before the approval is granted to execute the transactions.

Response – We will evaluate our disbursement procedures in an attempt to identify ways we can eliminate these issues. We will review the detail on payroll taxes before the authorization for payments is granted.

Conclusion – Response accepted.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

09-1 Certified Budget – The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements during the fiscal year ended June 30, 2009 did not exceed the amount budgeted for the Rock Rapids Municipal Utilities in the business type/enterprises activities function.

09-2 Questionable Expenses – Certain expenses were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented or the necessary documentation to support the expense was not present. These expenses are detailed as follows:

The Utilities purchased some food for Board of Trustees meetings. Also, the Utilities bought some flowers for an employee and a shirt for a former Board of Trustees member who had medical conditions.

The only support for several credit card charges was a copy of a credit card slip (there was no detailed receipt/supporting documentation). Additionally, we noted a couple payments on invoices and credit card charges which did not have any supporting documentation/invoice.

According to the opinion, it is possible for such expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The Utilities Board should determine and document the public purpose served by these expenses before authorizing any further payments. If this practice is continued, the Utilities Board should establish written policies (example: a written food, gifts and sustenance purchases policy should be adopted by the Board of Trustees) and procedures, including the requirement for proper documentation. All disbursements, including credit card charges, should be supported by an actual receipt/invoice that supports the expense in detail.

Response – Based on a discussion with a State of Iowa employee, we believe the food for meetings and the flowers and shirt given to the individuals with medical conditions satisfy the public purpose criteria. We will evaluate our disbursement procedures to make sure we retain proper supporting documentation.

Conclusion – Response accepted. We do believe the Utilities should formally adopt a written food, gifts, and sustenance purchases policy.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

- 09-3 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted. However, please see “Other Findings Related to Required Statutory Reporting: 09-2” for a possible related comment.
- 09-4 Business Transactions – No business transactions between the Utilities and Utilities officials or employees were noted.
- 09-5 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- 09-6 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not, except as noted here. The Board minutes of the August 8, 2008 and March 18, 2009 special Board meetings were never published. The continuance of the Housing Incentive (New Home Rebate) Program was not formally approved in the Board minutes. There was one \$2,000 check issued as a part of the Housing Incentive (New Home Rebate) Program that was not approved in the Board minutes.
- Recommendation – As required by Chapter 372.13(6) of the Code of Iowa, the Utilities should publish all Board meeting minutes within fifteen days of the meeting. The approval to continue the Housing Incentive (New Home Rebate) Program should be formally approved in the Board minutes. The Utilities should be reporting and publishing all claims in the Board minutes in order to comply with Chapter 349.18 of the Code of Iowa.
- Response – We will attempt to comply with your recommendation in the future. We have subsequently approved the continuance of the Housing Incentive (New Home Rebate) Program.
- Conclusion – Response accepted.
- 09-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted. However, please see “Other Findings Related to Required Statutory Reporting: 09-10” for a related issue.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

09-8 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2009.

09-9 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

09-10 Official Depositories – The maximum deposit amounts stated in the resolution naming official depositories were not exceeded during the fiscal year, except for deposits at US Bank. The maximum amount of \$2,500,000 was exceeded during a portion of August, September and October 2008.

Recommendation – The resolution in effect, as adopted by the Board, should be in amounts sufficient to cover anticipated balances at all approved depositories.

Response – We have increased the maximum authorized deposit amount at US Bank to \$3,000,000. We believe this will satisfy your recommendation.

Conclusion – Response accepted.

09-11 Economic Development – In fiscal year ended June 30, 2009, the Utilities donated \$500 to the Rock Rapids Development Foundation. This expense may not be an appropriate expense of public funds.

In accordance with Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation – The Board of Trustees should evaluate and document the public purpose served by this expense before authorizing further payments. Documentation should be maintained of how the funds are being used to accomplish economic development activities that meet the public purpose criteria.

Response – We will properly document the public purpose for this economic development expense in the future.

Conclusion – Response accepted. Please do document public purpose for all economic development expenses in writing before authorizing the expense in the future.

Rock Rapids Municipal Utilities
A Component Unit of the City of Rock Rapids
Schedule of Findings
Year Ended June 30, 2009

09-12 Employee Material Sales – Employees are allowed to purchase materials from the Utilities at cost. All other customers are charged cost plus a markup percentage. This practice may be a violation of Chapter 388.6 of the Code of Iowa, which prohibits utilities from charging discriminatory rates.

Recommendation – Please consult with your legal counsel as to the legality of waiving the markup percentage on materials sold to employees. If your attorney determines this practice is legal, a written policy needs to be adopted by the Board of Trustees regarding this practice.

Response – We are still waiting on a written response from our legal counsel in regards to your recommendation.

Conclusion – Response accepted.

09-13 Internal Revenue Service Reporting Compliance – The Utilities on occasion reimbursed employees for meal charges related to non-overnight meetings. The Utilities awarded each of the employees with a gift certificate. The Utilities treated these payments as non-taxable to the employees, when in actuality, these are taxable earnings to the employees per Internal Revenue Code regulations.

Recommendation – The Utilities should be following Internal Revenue Code regulations and properly report meal reimbursements related to non-overnight meetings and gift certificates issued to employees as taxable earnings to the employees. The Utilities should amend prior tax reports and forms that were filed improperly.

Response – We will evaluate this compliance issue.

Conclusion – Response accepted.

09-14 Notice of Public Hearing –The notice of the public hearing for the “Disinfection Equipment Addition” capital project was published more than twenty days before the date of the public hearing (twenty one days). The published notice listed a date that was one day different than the date the actual public hearing was held.

Recommendation – The notice of public hearing on a capital project needs to be published not less than four nor more than twenty days before the date of the hearing as provided in Chapters 26.12 and 362.3 of the Code of Iowa. The proper date of the public notice needs to be listed in the publication.

Response – We will comply with your recommendation in the future.

Conclusion – Response accepted.

**Rock Rapids Municipal Utilities,
A Component Unit of the City of Rock Rapids**

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor
Carmen Austin, CPA, Senior Auditor
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De Noble & Company PC
Certified Public Accountants

